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ABSTRACT

This guide contains 13 concept-based lessons in economics for use in secondary U.S. history courses. One component of a two part publication, the guide demonstrates how the conceptual structure of the economics discipline presented in the first publication (ED 148 648) can be used to help students develop basic economic concepts. Each lesson is self-contained. Students read and discuss short readings, analyze tables and maps, write essays, and take part in simulations. Lessons 1 through 3 deal with the Colonial Period. Lesson 1 applies the concept of scarcity of the factors of production to topics such as the hardships faced by the pilgrims and the use of indentured servants. Lesson 2 deals with the concept of opportunity costs. In lesson 3 students study voluntary trade, interdependence, and specialization. Lesson 4, on the Jacksonian Period, requires that students explore the meaning and function of money. In lesson 5 "Westward Expansion" students learn how economic incentives play a central role in explaining human behavior. The concept of comparative advantage is introduced in lesson 6, "Interregional Trade." Late 19th Century labor market conditions are examined in lesson 7. The concepts of competition, the market structure, and economies of scale are explained in lesson 8, "The Growth of the Corporation", and in lesson 9, "Changing Structure of American Industry." Lesson 10 treats government regulations. Lessons 11 and 12 discuss the role of government in the economy before and during the Great Depression. In lesson 13 students examine various forms of government intervention and their effects on the free functioning of market forces. (Author/RM)

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JUN 9 1980

Part II

Strategies for Teaching Economics:

United States History (Secondary)

James B. O'Neill, *Chairperson*

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

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Master Curriculum Guide in Economics for the Nation's Schools

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Foreword

The *Master Curriculum Guide* was published to be used as a tool for curriculum development—it is not a curriculum per se. It is designed as a resource document for school systems engaged in K–12 economic education curriculum development. Part I provides a framework for teaching economic ideas and Part II provides detailed classroom lessons illustrating useful ways in which these ideas can be taught at different levels of difficulty. Thus, the *Master Curriculum Guide* indicates what economic ideas can be taught, where they can be taught, and how they can be taught.

It was decided to slice the school years into three segments: primary, intermediate, and secondary—with the secondary packets oriented toward subject fields. Curriculum committees were established for these segments. Teachers must decide the appropriate grade for each lesson based upon the capacity of their students. Those teaching in "middle schools" will want to examine both the intermediate-level package and the various secondary packages.

By judiciously selecting lessons from the volumes of teaching strategies, teachers can systematically upgrade the quantity and quality of economics instruction in their existing courses. Each lesson is self-contained and ready for teaching, but good teachers who have had economic education training can readily modify the activity to fit their special classroom needs. The lessons are concept-based rather than unit or theme-oriented. Once teachers have mastered the instructional activity, placement within existing courses or inclusion as supplements to text units will rapidly follow. Sample materials for classroom use (e.g., pictures, cards, games, etc.) may be reproduced at the teacher's discretion.

Most of the curriculum strategies published in this volume have not been classroom-tested. For this reason, we see the present edition as a working document that will be improved on the basis of responses from users throughout the country. The Instructional Activity Evaluation Form (shown on pages 9-10) or modified versions of it, may be used by supervisors to obtain feedback from teachers. We urge teachers to send copies of such evaluations to the Joint Council. This will enable us to obtain insights for future revisions. Furthermore, since we view these collections of concept-oriented curriculum activities as starting points, teachers are urged to submit their own activities dealing with concepts selected from Part I, the *Framework*. Those teachers wishing to submit activities should use a format that includes the essential elements of the format outlined on page 11. This guide was developed to encourage writers to provide immediately teachable lessons. If the Joint Council receives a sufficient number of activities that have been classroom-tested, it will be well on its way toward supplying multiple volumes of conceptually oriented lessons at various grade levels. In fact, it would have a growing "curriculum activities bank" which, when published, would provide teachers with a rich source of classroom-tested lessons designed to teach various components of the economics framework.

The Master Curriculum Guide Project, like all complex undertakings, is the product of many people whose contributions must remain unacknowledged, because it is nearly impossible to assign authorship to ideas that have been shaped and reshaped as they were molded into a published document. Perhaps by briefly tracing the evolutionary character of the product, we can not only clarify its purpose but also give credit to some of the principals involved.

The Master Curriculum Guide Project is an outgrowth of the Developmental Economic Education Project (DEEP). Working documents produced for the DEEP experiment in curriculum change conducted between 1964 and 1969 included the "two little red books," as they were called in the field: one a statement of economic concepts to be taught as outlined in the *Task Force Report on Economic Education in the Schools*, and the second, some suggestions for grade placement. These materials were later fashioned into a single volume entitled *Economics in the Curriculum*. During the 1960s and the early 1970s, these publications were extensively used, especially by those schools associated with the DEEP

Cooperating Schools Program. Literally hundreds of curriculum guides and lesson plans were generated from these documents and through them thousands of teachers and students were introduced to economic education.

During the 1973 meetings of the National Association of Affiliated Economic Education Directors, many Council and Center directors, led by the California and Oklahoma contingents, urged the Joint Council to undertake what has become known as the Master Curriculum Guide Project. It took three years for W. Lee Hansen's committee to develop *A Framework for Teaching Economics*. At the same time that the *Framework* was being prepared, curriculum task force groups were established, chaired by the individuals whose names appear on these published volumes. Behind the scenes, the project relied heavily on a steering committee of professional economic educators: Peter V. Harrington, director, Indiana Council for Economic Education, Purdue University; Hugh G. Lovell, professor of economics, Portland State University; Clayton Millington, executive vice president, Oklahoma Council on Economic Education, Oklahoma State University; Leon M. Schur, director, Center for Economic Education, University of Wisconsin-Milwawkee; Roman F. Warmke, chairman, Department of Economic Education, Ohio University.

These individuals served in an advisory capacity for various project committees and significantly helped to shape the product. June V. Gilliard, director of curriculum for the Joint Council, contributed importantly to the design of the teaching strategies and prepared the Instructional Activity Evaluation Form. Each committee was given the responsibility to make a first selection of those economic concepts that could be most usefully taught within the grade level and subject area established. We know that more ideas than are included in these volumes *can* be taught. Our objective for these first editions was to produce a few quality activities that could be immediately used by teachers.

We are indebted to all individuals who have participated in the preparation of *Strategies for Teaching Economics: United States History*, but special thanks are due to the chairperson, James B. O'Neill. Through his leadership, we have good teaching models that will serve to accelerate concept learning in economics.

S. Stowell Symmes
Director of School Services
Coordinator, Master Curriculum Project

Preface

Strategies for Teaching Economics is one component of a two-part publication entitled *Master Curriculum Guide in Economics for the Nation's Schools*. Part I of the guide, *A Framework for Teaching Economics: Basic Concepts*, presents a conceptual structure of economics and shows how that structure can be used to assist in more effective personal economic decision-making. Part II, *Strategies for Teaching Economics*, demonstrates to educators how the conceptual *Framework* can be taught at various grade levels: primary, intermediate, and secondary. It is published as several volumes to allow more flexible use by classroom teachers and curriculum development specialists.

The Joint Council greatly appreciates the fine cooperation given to us by the many universities and school systems associated with the development of these curriculum strategies. We are especially indebted to the individuals who drafted the materials. While no claim is made that these lessons have been evaluated under all classroom conditions, it is expected that the lessons will work with the pupil populations designated. We consider the present volume as a working document and expect that revised editions will be forthcoming in the years ahead.

The entire Master Curriculum Project was made possible by generous contributions from all our many dedicated sponsors. In addition, supplementary grants were received from General Motors, Ford Motor Car Fund, and American Telephone and Telegraph. We appreciate the confidence these sponsors have expressed in the economic education movement. Special commendation should be given to S. Stowell Symmes, director of school services, who has coordinated the project for the Joint Council from its inception and to John de Vita, June Gilliard, and Lawrence A. Mayer, who skillfully clarified difficult segments of the guide during the editing process.

We are confident that *Strategies for Teaching Economics* will serve teachers well as practical guidelines for building economics lessons into existing curricula. Properly used, the *Master Curriculum Guide* can become a powerful device for accelerating economics instruction at all grade levels.

M. L. Frankel
Former President

Michael A. MacDowell
President

Acknowledgments

The development of this publication has been a long and arduous task and would not have been possible without the cooperation of the College of Business and Economics, University of Delaware, and many individuals on the staff of the Joint Council on Economic Education.

The project evolved through two major stages: initial writing and classroom testing and rewriting based upon teacher feedback. John Miller, Marshallton-McKean School District, and John Morgan, Appoquinimink School District, were instrumental during the initial stages of development, while Barbara Fournier and Gail Funk, Newark (Delaware) School District, contributed throughout the project. Peter V. Harrington and Marianne Talafuse of the Indiana Council for Economic Education, Purdue University, and George Vredeveld of the University of Cincinnati provided important guidance at the rewriting stage. Edward C. Prehn was instrumental in the completion of the rationale and reorganized Elayne Feldman's world trade material into the Master Curriculum Guide format.

Special thanks go to Bonnie Meszaros, field consultant, Center for Economic Education, University of Delaware. She willingly gave excellent advice and thoughtful assistance at critical points during the entire development process. In addition, appreciation is due the many teachers in Delaware who participated in the revision process.

James B. O'Neill
University of Delaware

Overview and Rationale

It is reassuring to know that by introducing economics into a course in United States history, one need *not* take something else out. Indeed, economics will make history instruction more meaningful. It will enrich and enliven the course and help the teacher to relate historical events to current issues in an effective way. The activities in this guide are not intended to develop a complete U.S. history course; they are meant to exemplify where economics may advantageously provide an analytic framework in U.S. history classes. The general themes, key concepts, and clusters of subconcepts used here purposely cover different historical periods in order to illustrate a developmental sequence.

Most of the economic concepts emphasized are covered in leading American history texts for secondary schools. However, the texts often do not make the most of the opportunities that history provides to develop students' understanding of basic economic concepts. For example, the building of the nation's transcontinental railroad network is usually presented as a dramatic conquest of nature with emphasis on miles of track, the air brake, the Pullman, refrigerated freight cars, and "the Golden Spike." The impacts of this development in transportation on specialization of production, division of labor, extent of the market, relative prices, industrial location, or employment opportunities tend to be ignored. This publication is designed to provide opportunities to correct such shortcomings.

Since U.S. history is taught to students of different abilities and interests in grades seven to twelve, the economic concepts are presented with varying degrees of difficulty.

Scarcity—The Basic Economic Problem

All societies wrestle with the central economic problem of scarcity—the task of allocating limited resources among many competing uses. A thorough understanding of this concept is essential when applying economics to the study of American history or to any other subject.

Lesson 1, on the colonial period, applies the concept of scarcity of the factors of production—land, labor, and capital—to topics in U.S. history such as the hardships faced by the Pilgrims, the use of indentured servants, the printing of paper money, the system of triangular trade, and the migration of colonists beyond the Proclamation Line. Lesson 2 deals with the concept of "opportunity costs" (i.e., the making of choices) in relation to the experiences of the Pilgrims, other New Englanders, and Southerners. By natural progression Lesson 3 goes on to voluntary trade, interdependence, and specialization.

As time passed and experience accumulated, the colonies began to specialize in what they produced; that is, the colonists allocated their scarce resources to the things they could most efficiently make. Such specialization stimulated trade among the colonies and with England. Increased specialization and trade in turn enabled the colonies to utilize their resources to the fullest. Moreover, trade created interdependence among the colonies because each relied on the others for goods and services they no longer provided themselves. Britain's restrictions on that trade helped lead to the American Revolution.

The concepts in the first three lessons can be used in a variety of ways. For example, comparisons can be made between the explorers of the Age of Discovery and the space explorers of today. Governments that send men to the moon or explore Mars or other planets are using scarce resources that could be employed in the production of something else—that is, the opportunity costs of space exploration are the other goods and services forgone.

Money

Money plays a central role in politics as well as in economics. Lesson 4, on the Jacksonian Period, requires that students explore what money is and what its functions are. After examining these functions, the student explores the relationship between changes in the supply of money and changes in output and prices.

Some of the main episodes in the story of money in the United States include the "greenback inflation" after the Civil War, the controversy over bimetallism in the late nineteenth century, the establishment of the Federal Reserve System in 1913, the devaluation of the dollar in 1934, and the cutting of the link between the dollar and gold in 1971.

Economic Incentives and Allocation

Economic incentives play a central role in explaining much human behavior. Lesson 5, "Westward Expansion," helps students grasp that our economic system allocates scarce resources largely by the use of such incentives. The lesson shows that despite vast new acquisitions, land in the United States was scarce in the economic sense, for land was and is a finite natural resource. As the population of the eastern seaboard grew, land became scarcer; therefore many people sought a place to improve their fortunes by moving west. The economic incentive to own land played an important role in the westward push of the frontier.

Equally significant to the history of western settlement were government policies that established mechanisms for allocating public lands. At first, na-

tional land policy was designed primarily to raise revenues for the debt-ridden government. Auctions were used to dispose of large tracts. In that way, people who desired land and had access to funds became owners of land. Of course, large numbers lacked the money to do so.

During the nineteenth century the territory of the United States more than doubled. To achieve rapid settlement required a national land policy offering people sufficient incentive to risk moving to remote and often hostile areas. In some instances land was given away as an inducement for entrepreneurs to build railroads.

Comparative Advantage

The concept of comparative advantage is introduced in Lesson 6, "Interregional Trade." The heart of the lesson is the reading "Regional Specialization in the Pre-Civil War Period." Students need to understand the concept of comparative advantage thoroughly if they are to understand the impact of regional development and trade on the development and growth of the United States. (Comparative advantage also sheds light on factors at work in international trade.)

From George Washington's tour of New England six months after becoming President in order to see at first hand how the American economy was functioning to the most recent Economic Report of the President, our chief executives have been interested in economic growth. Economic growth occurs as the volume of national production rises over the long term. Of late, economic growth has become somewhat controversial. On the one side it is argued that growth is frequently "mindless" because it brings on such problems as pollution of the environment. On the other it is argued that economic growth can help to furnish more resources to cope with problems of the environment and of poverty.

Labor Markets

A plentiful supply of labor contributed to the rapid economic growth of the United States in the late nineteenth century. Immigrants seeking to improve their lives here, impelled by poor social conditions or dismal economic opportunities in their homelands, helped provide a large labor pool from which expanding industries could draw. The immigrants improved their lot, but the enlarged supply of labor also helped keep wages down. Working conditions that we would deem poor today were also the rule: lack of adequate safety standards, use—and sometimes abuse—of child labor in manufacturing and mining, a six-day workweek of 72 hours or more in nonagricultural industries.

By the latter decades of the nineteenth century, more and more workers were not only questioning working conditions, but also the level of wages. In effect, they were complaining about what economists call the functional distribution of income. The phrase refers to the sharing of income among the factors of production—land, labor, and capital—in the form, respectively, of rent, wages, and interest and profits. The dissatisfaction of workers led to the growth of labor unions. Labor market conditions and their consequences are the subject of Lesson 7.

Several important matters are broached in Lesson 7: how nonmarket factors influence labor markets; the inordinate power of employers—by today's standards—in the latter nineteenth century; the spread of unions in order to offset that power; the consequent clashes between large corporations and unions, which in turn led to government involvement in labor-management relations. The result: the imperfect, i.e., incompletely competitive, labor markets of today.

Competition and the Market Structure

The concepts of competiton, the market structure, and economies of scale are explained in Lesson 8, "Growth of the Corporation," and in Lesson 9, "Changing Structure of American Industry." Rapid population increase was only one factor in America's economic growth after the Civil War. Other factors were the increase in what economists call capital stock (e.g., factories, machinery, transportation equipment), new or improved technologies, rising productivity (production per man-hour worked) and urbanization.

Although the United States made great economic progress, this progress was uneven. There were periods of severe depression: 1873 to 1879 and 1895 to 1897. There were various protest movements on behalf of workers, farmers, women, the urban poor, immigrants, and other groups. An important development, as we have seen, was the rise of labor unions.

The growth of "big business" led to a demand for government regulation to eliminate abuses of monopoly power and to curb monopolistic practices such as pools, trusts, and holding companies that served to impair or destroy competition. The result was antitrust legislation—and government antitrust policy raises several important questions. Is government regulation necessary for the maintenance of competition in the American economy? If necessary, what kind and how much regulation is appropriate and what is the effect on economic goals such as freedom and equity in the marketplace? These and similar aspects of government policy are dealt with in Lesson 10, "Changing Role of Government in the Economy." The teacher should remind the class that government has intervened in economic activity throughout our history, but that before 1887 such government intervention mainly took the form of promoting economic growth, opening up new lands, and—very importantly—assisting business, for example, by providing subsidies (e.g., land grants to railroads) and imposing tariffs on imports (to protect domestic manufacturers).

New Government Responsibilities

Lessons 11 and 12 take up the role of government in the economy before and during the Great Depression

that set in after the famous stock market crash of 1929. The government's role in economic affairs increased greatly during that period and also changed greatly in character. While its regulatory role continued and grew, government also took on responsibility for relieving the effects of unprecedented levels of unemployment and other economic dislocations or ills. And, perhaps even more important for the long run, the federal government began to assume economic responsibility for stabilizing the economy, i.e., keeping booms and inflation in check and minimizing economic downturns and deflation. These lessons about the stock market crash and the depression enable students to compare policies of the Hoover and early Roosevelt administrations and then to think about their own positions regarding the proper role of government.

The role of the federal government in economic life expanded substantially after World War II. The Employment Act of 1946, signed and passed during President Harry S. Truman's administration, expressly committed the government not merely to stabilize the economy but to keep it growing. The act set up a Joint Economic Committee in Congress and a Council of Economic Advisers to the President. The most important part of the act, Section 2, contains, among other things, the following key statement: "The Congress hereby declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means . . . to promote maximum employment, production, and purchasing power." Although not mentioned explicitly, maintaining price stability has long been regarded as implicit in the act, e.g., in the term "to promote maximum . . . purchasing power."

Wide Use for Economic Concepts

It should be apparent by now that basic economic concepts can be introduced in a great variety of historical situations. The concept of the market and how it should operate pervades much of our history and is relevant in many contexts. The principles underlying trade are another example. They can be introduced in the very beginning of the colonial period, and then repeated with increasing degrees of complexity throughout the course. More broadly yet, Hamilton's financial plans, Jackson's "war" on the Second Bank of the United States, William Jennings Bryan's advocacy of silver as backing for U.S. currency, and the like no longer need to be treated in a purely descriptive fashion but can be used to shed light on current money and banking problems as well as on present-day controversies over economic growth and the federal government's involvement in the economy. Teachers have many opportunities to relate economic principles and ideas to episodes in American history in an interesting and meaningful way.

International Economics

The first U.S. ministers to Europe—John Adams in Great Britain and Thomas Jefferson in France—spent more of their time promoting trade expansion than on any other single activity, and foreign trade is still essential to the nation. American industries need vast amounts of raw materials, many of which are not available in sufficient supply within our own borders, and the United States also imports many manufactured products. In order to pay for goods and materials from abroad, we must export equally vast quantities of products from our farms and factories. Our foreign trade creates many jobs, not only for Americans, but for millions of people throughout the world who supply the American market. These alone are cogent reasons for introducing high school students to international economics. Lesson 13 has been designed to assist students to make the transition from thinking about the U.S. economy in an isolated fashion to thinking about it as part of the world economy.

Although most students have little firsthand experience about international economics, the subject is not beyond their understanding. The methods and concepts used to analyze international trade are essentially the same as those applied to domestic trade. Goods and services are sold in international markets at prices determined by supply and demand. The principle of comparative advantage explains why countries specialize in producing particular goods and services. (Comparative advantage was introduced in Lesson 6, but in respect to trade between two regions of the United States. The treatment there holds true for international trade as well, and teachers may want to review parts of that lesson—particularly Procedure 2.) International specialization and trade result in a better allocation of the world's resources, and thus provide a higher standard of living for all nations than if such trade were not carried on or if there were less of it.

Teachers and students must bear in mind that foreign trade differs from domestic trade in several ways. Trade must traverse national boundaries and, therefore, involves at least two different currencies. Resources are less mobile internationally than they are within a country. Governments interfere more with the free functioning of market forces in foreign trade than they do in domestic trade; intervention takes the form of tariffs, quotas, subsidies, state trading, and cartel action (e.g., the OPEC oil cartel), as well as the management of the exchange rates of currencies. In Lesson 13, "United States and International Trade: Government Regulation of Foreign Trade," students examine various forms of government intervention and their effects on the free functioning of market forces.

Organization of Each Lesson

The concept or concept cluster is specified at the beginning of each lesson, following a statement of the time required and recommended grade level. Each concept is briefly explained in the *Master Curriculum Guide*, Part I, *A Framework for Teaching Economics:*

Basic Concepts,* which should be used by teachers as a reference source.

Instructional objectives are generally stated in terms of what the students should be able to do so that teachers and students will clearly understand what students should learn. These are followed by a rationale which explains why the particular lesson was chosen.

Recommended procedures for teaching and learning activities are described in detail. Sometimes a note has been included to point out special requirements. Obviously, skilled teachers will modify these procedures as experience dictates.

Each lesson includes an evaluation exercise to enable students and teachers to reflect on what has been learned. Teachers will want to supplement these activities with other measurement instruments such as objective tests. Two useful nationally normed tests are:

Junior High School Test of Economics (Grades 7–9). An evaluative instrument of 40 questions classroom-tested with seventh, eighth, and ninth graders in twenty-two school districts. The manual includes a rationale for answers to each question, technical norming data, suggestions for use of the test, and an answer sheet and scoring key.

Test of Economic Literacy. The test comes in two equivalent forms (A and B) of 46 questions each at the high school level. The content categories are based on the *Master Curriculum Guide*, Part I. The test was nationally normed at the eleventh and twelfth grades. The test manual includes a discussion guide for each question, technical norming data, suggestions for use of the test, and model answer sheets and scoring keys. The classroom teacher should appraise these nationally normed tests in respect to their pertinence to the lessons the teacher has chosen to use. Both are available from the Joint Council on Economic Education.

The lessons have been organized with the underlying conviction that teaching economics in U.S. history requires conveying not only "What happened," but also "Why it happened." The first requires stringing together facts in a purely descriptive pattern; the second emphasizes the underlying process and the economic concept involved. In short, facts become more meaningful when placed on a framework so that they can be seen as elements of an economic concept.

Effective teachers of economics teach concepts by using several "languages" concurrently: clear oral prose, brief written prose on the chalkboard, diagrammatic representation, and sometimes algebraic presentation. To be taught effectively, concepts must be relevant and used explicitly in a variety of situations at different points in the course or curriculum. Students have not really understood an economic concept until they can express it in the language of economics and until they are able to apply the concept to new situations.

The lessons have been carefully written and scrutinized by teachers, administrators, and economists, whose primary objective was to illustrate how economics can be used as an integral part of the U.S. history curriculum. The writers and reviewers hope these lessons will provide the nucleus and model for additional lessons as teachers and curriculum coordinators develop materials tailored to the needs of their own students.

It should be emphasized that lessons which seem too sophisticated for some students should be and can be modified as needed. As always, individual teachers are the best judges of the potential of their students.

* New York: Joint Council on Economic Education, 1978.

MASTER CURRICULUM GUIDE

Instructional Activity Evaluation Form

Please complete an evaluation form for each activity used and return to: _____ (Name of Supervisor)

NAME: _____ (Person Completing Form) SCHOOL ADDRESS: _____

DATE: _____ _____

_____

TITLE AND/OR LEVEL OF ACTIVITY PACKAGE: _____

NUMBER AND/OR TITLE OF ACTIVITY: _____

DESCRIPTION OF CLASS WITH WHICH ACTIVITY WAS USED:

Course Title: _____

Age Range or Grade Level: _____

Title of Textbook (if any): _____

Student Ability Level(s)—(Check one):

_____ Above Average

_____ Average

_____ Below Average

_____ Heterogeneous Group Including All the Above

ACTIVITY EFFECTIVENESS (circle the number you think indicates the appropriate rating):

1. Are objectives clearly stated?

   Very Clear 5 4 3 2 1 Vague

2. Are objectives realistic in terms of student maturity at the specified age or grade level?

   Very Realistic 5 4 3 2 1 Unrealistic

3. Are teaching procedures stated in a manner so as to be easily understood?

   Easy to Understand 5 4 3 2 1 Very Difficult to Understand

4. Are teaching procedures appropriate for accomplishing objectives?

   Very Appropriate 5 4 3 2 1 Not Appropriate

5. Are teaching procedures appropriate for students of this age or grade level?

   Very Appropriate 5 4 3 2 1 Not Appropriate

6. Are recommended student materials appropriate for the age or grade level specified?

Very Appropriate	5	4	3	2	1	Not Appropriate

7. To what extent does this activity contribute to pupils' understanding of the particular economic concept it is designed to teach?

Very Much	5	4	3	2	1	Not At All

8. Did you use any of the items suggested for evaluation? _____
If yes, please provide the information requested below.

Number of Evaluation Item	*Average Level of Class Performance (Circle one)*			
_____	Excellent	Good	Acceptable	Poor
_____	Excellent	Good	Acceptable	Poor
_____	Excellent	Good	Acceptable	Poor
_____	Excellent	Good	Acceptable	Poor
_____	Excellent	Good	Acceptable	Poor

9. What would be your overall rating of evaluation techniques suggested for this activity?

Excellent	5	4	3	2	1	Poor

10. What would be your overall rating of the activity in terms of its effectiveness for achieving stated objectives?

Very Effective	5	4	3	2	1	Not At All Effective

COMMENTS AND RECOMMENDATIONS: What changes and/or additions would you recommend for making this a more effective instructional activity? Please describe or, if available, include some samples of any additional teacher or student materials you used (for example: evaluation techniques). We welcome specific elaboration concerning any of the above questions.

(Attach extra sheets with comments and materials or use back of form)

Form prepared by June V. Gilliard,
Director of Curriculum, JCEE

MASTER CURRICULUM GUIDE

Instructional Activity Format

TITLE:	Name of lesson.
TIME REQUIRED:	Time or number of class periods needed to complete the activity.
RECOMMENDED GRADE LEVEL:	Grade and/or ability level of students for whom the activity is intended.
MAJOR CONCEPTS:	Concepts around which the activity is mainly organized.
RELATED CONCEPTS:	Other economic concepts dealt with in the activity.
INSTRUCTIONAL OBJECTIVES:	For each objective we specify (1) the particular knowledge, skill, or attitude the student is expected to demonstrate; (2) the action the student will perform in demonstrating this knowledge, skill, or attitude (e.g., write, compare, state, list, etc.); (3) the conditions under which the action is to occur (e.g., given certain data or information, after viewing a particular film, participating in a particular field trip, etc.).
RATIONALE:	A brief statement explaining the significance of the activity. The statement may focus on what students should know, be aware of, or be able to do. Or, it may focus on the importance of the instructional approach being taken (e.g., use of gaming/simulation for motivational purposes or to have students apply certain skills, knowledge, etc.).
MATERIALS:	A list of all materials needed for the activity (e.g., books, games, films, etc.).
PROCEDURE:	A description of the teaching-learning process to be used for pupil attainment of objectives. Includes both teacher strategies and pupil activities.
EVALUATION:	A description of strategies, testing instruments, or other materials to be used for assessing student learning.

Lesson 1: Early Settlers

TIME REQUIRED: Two class periods

RECOMMENDED GRADE LEVEL: 8–11

CONCEPTS: Scarcity
Productive resources (land, labor, capital)

Instructional Objectives: Students will

- Define *scarcity* and *productive resources*;
- Name the productive resources available to early settlers in Plymouth and correctly place them in the categories of land, labor and capital;
- Cite specific examples of how seventeenth century technology influenced resource use;
- Describe ways in which scarcity influences life in the United States today;
- Explain how scarcity affected specific developments in U.S. history.

Rationale: All societies wrestle with one central economic problem: scarcity. Therefore the task of allocating limited resources among competing uses has confronted the United States throughout its history. Because scarcity is "the economic problem" facing all economic systems, a thorough understanding of this concept is essential to the study of many events in history.

Materials: One copy each of handouts 1-1 and 1-2 for every student.

Procedure:

1. Distribute Handout 1-1. Allow time for reading; then, through discussion, establish that students have a working definition of scarcity and productive resources (Productive resources are also often referred to as the factors of production).

   —*Scarcity*: The resources available to society are insufficient to produce all the goods and services people desire. In economics, any resource that must be acquired by work, the expenditure of money, or barter is deemed scarce.

   —*Productive resources or factors of production*: Consists of land (natural resources that can be used in production such as farmland, water, mineral deposits, etc.); labor (human endeavor—*and* human skills); and capital (equipment such as machinery, buildings—including factories, warehouses, stores, offices, garages—as well as tools, trucks, railroads, bridges, roads, etc., used to produce other goods or to furnish services).

   Instruct students to study the table in Handout 1-1; then ask:

   a. Which factors of production were relatively plentiful in the Colonies? In England? (Colonies: land; England: labor and capital.)
   b. Which factors of production were relatively scarce in the Colonies? In England? (Colonies: capital and labor. Although natural resources were available, they were not readily accessible. England: land, i.e., natural resources.)
   c. What resources are relatively scarce in the United States today? How does scarcity shape our national life? (These are open-ended questions and should encourage students to express their thinking about environmental problems, shortages of natural resources, and how substitutions, changes in the relative structure of prices and technology alter situations of scarcity.)

2. Distribute Handout 1-2. Allow time for reading and for listing the resources available to the Pilgrims. After students have completed the reading, have them classify the resources under the headings Land, Labor, and Capital. The final listing will be similar to that shown below.

Land (natural resources)

protected harbor	birds
fresh water streams	clams
oysters	deer
mussels	soil
trees	fish
beaver	

Labor (human resources)

farmers	weavers
bricklayers	laborers
barbers	carpenters
printers	

Capital (tools and equipment)

axes	hoes
hammers	muskets
fish traps (dam)	

3. Have students compare their lists and then discuss the following: Did the Pilgrims make the best use of their productive resources? Can you cite specific examples from the reading to support your answer? What had to happen before the Pilgrims' way of life could be substantially improved? (Students should be able to cite several instances in which the Pilgrims lacked either the technology, skills, or work force necessary for making productive use of all the natural resources at Plymouth.

Although there were many natural resources, they were not readily available. Thus, both capital and human resources had to become more plentiful before the Pilgrims' way of life could be substantially changed.)

Evaluation:* Have students complete the following assignment in written form or as preparation for class discussion.

Using your textbooks and other sources, describe how scarcity was involved in each of the following developments in U.S. history:

a. The introduction of slavery
b. The use of indentured servants
c. The printing of paper money in the colonies
d. The system of triangular trade
e. The movement of colonists beyond the proclamation line

The information below is provided to assist teachers in guiding the class discussion or in evaluating written responses.

a. THE INTRODUCTION OF SLAVERY—The "obvious" answer to this question is that the willingness to purchase slaves reflected a scarcity of labor. But scarcity is a *relative* concept. There can only be a scarcity of labor relative to some other factor of production. Thus it must be clear that labor was scarce relative to the amount of land which was available. It should be noted that scarcity may not have been the *only* motivating factor for the introduction of slavery. Psychological needs and a desire to continue the social structure of the seignorial society of Europe may well have been important. Oscar and Mary Handlin, in the *William and Mary Quarterly* (1950, pp. 199-222), indicate that the notion of slavery as such did not exist in the seventeenth century. An interesting activity for students is to have them investigate why blacks were made slaves rather than indentured servants.
b. THE USE OF INDENTURED SERVANTS—The notion of scarcity is related to indentured servants in the same way as it is related to slavery. A relative scarcity of labor led entrepreneurs to devise various incentives to attract labor from Europe.
c. THE PRINTING OF PAPER MONEY IN THE BRITISH COLONIES—One reason money exists is to *facilitate* the exchange of goods and services. Money can only be *scarce* relative to the quantity needed to make transactions easier. Any society, once it begins to specialize beyond subsistence production is going to find *some* item which can be used as an alternative to barter. British and Spanish currency brought over by the colonists simply was insufficient to carry out the role of money in facilitating exchange.
d. THE SYSTEM OF TRIANGULAR TRADE—Trade is related to scarcity, but in a rather complex fashion. Trade takes place because different nations or different areas of the same nation are not equally endowed with resources or cannot produce goods from those resources with equal efficiency. Thus, various countries or areas concentrate on producing those commodities they can produce most efficiently and trade them for the commodities that other areas produce most efficiently. (The basis of trade is somewhat more complicated because it is usually based on "comparative" rather than "absolute" advantage, a matter that is explained in and is the subject of Lesson 6 below.) Simply put, triangular trade occurs when a country trades some of its products to a second country and gets "paid back" by a third one. One example in colonial times was the relation between the United States, Africa, and the West Indies. The New England and middle colonies produced rum, which was sent by boat to Africa. The rum was unloaded and replaced by slaves and spices bound for the West Indies. After the slaves and spices got to the West Indies, molasses was taken aboard and brought to the colonies to be converted into rum. The new rum, of course, enabled another round of this triangular trade to begin. (In actuality, of course, different ships were likely to be carrying the different cargoes to the destinations involved.)
e. THE MOVEMENT OF COLONISTS BEYOND THE PROCLAMATION LINE—This illustrates clearly the notion of *relative* scarcity. There was much unsettled land still available east of the Proclamation Line when colonists insisted on moving west of that line. Why did they push further west? If land is abundant relative to labor, it pays to farm extensively rather than intensively, i.e., it pays to exhaust soils and move on rather than use a great deal of labor and fertilizer to rejuvenate exhausted cropland. Thus, the economic incentive to move west reflects the basic scarcity of labor *relative* to land.

* Adapted from William Murphy, *Strategies and Materials for Topic III, American Economic Life* (Geneseo, N.Y.: published by the Genesee Region Council on Economic Education for the New York State Department of Education, 1971), p.2.

Handout 1-1

THE CENTRAL ECONOMIC PROBLEM

Available economic resources are inadequate to satisfy all human wants. Economists call this condition *scarcity*. To meet their needs and almost limitless wants, people use available land (natural resources), labor (human resources), and capital (seeds, tools, machines, buildings, etc.) to create goods and services for consumption and to create new capital goods.

It is unlikely that any group of people has ever had *all* the resources it wanted or needed, but societies have experienced *relative* abundance or scarcity of one or more factors of production. As an example, look at the distribution of factors of production in Britain and the United States during the colonial period. What inferences can you draw from the data on the table?

British Holdings in What Is Now the United States		British Holdings in Britain	
Land			
About 888,000 relatively unused square miles of rich land, fishing grounds, etc., at the time of U.S. independence in 1783		A land area of some 94,000 square miles, worked fairly intensively by the standards of the time.	
Labor (total population)			
1630	5,000	1640	4,500,000
1680	151,000	1689	5,250,000
1730	600,000	1750	6,500,000
1790	2,800,000	1801	9,000,000
Capital			
Little domestic capital. Limited to small factories, and simple machines, and handmade tools owned by individuals. The shipping industry in New England, however, was well developed by comparison.		Possessed a large and growing textile industry with powered spinning and weaving machines. Also had considerable facilities for the production of pig iron (for example, output was 125,000 tons in 1796). Had a rapidly growing transportation system: many roads and canals were being built. In 1790-94 alone, permission to build 81 canals was granted.	

Adapted from William Murphy, *Strategies and Materials for Topic III, American Economic Life* (Geneseo, N.Y.: Published by the Genesee Region Council on Economic Education for the New York State Department of Education, 1971), pp. 4-5.

Handout 1-2

THE PILGRIMS: ECONOMIC SCARCITY

This reading describes the resources of the Pilgrims. With these resources they had to make the goods and get the services they needed to stay alive in the new world. AS YOU READ, MAKE A LIST OF THE RESOURCES THEY HAD.

In November, 1620, the Pilgrims who lived through the journey across the Atlantic arrived in the New World. They sailed into what is now Provincetown Harbor off Cape Cod, Massachusetts. The Pilgrims reached land with mixed feelings. They were very glad to find a safe harbor, because they had spent sixty-six long days . . . at sea in a crowded boat. More than once the boat had seemed in danger of sinking in the rough winds and high seas. William Bradford, their leader, wrote that ". . . they had now no friends to welcome them nor inns . . . to refresh their weatherbeaten bodies; no houses or much less towns" to go to, to find food and shelter. They feared the Indians, ready "to fill their sides with arrows." Also, "it was winter . . . and what could they see but a hideous and desolate wilderness full of wild beasts and wild men." It was late fall, and "the whole country, full of woods and thickets, [had] a wild and savage appearance." To the Pilgrims the ocean now seemed "to separate them from all the civil parts of the world." They lived in the ship, and ate its small supply of salt beef, hard biscuits, dried fish, cheese, and beer. However, the ship's captain was daily grumbling because the Pilgrims were eating the food that he and his men would need for their trip home. He wanted the Pilgrims to found a settlement on land. That winter, in the rain and snow and sleet, with the sea spray freezing to ice on their coats, the Pilgrims were less aware of the wealth of their new land than [of] their own tired, wet, cold bodies and their great need for food and warm dry houses.

After a cold month of wandering around on Cape Cod, the Pilgrims crossed the bay to what is now Plymouth, which they thought was better for settlement. It had a protected harbor and several freshwater streams. Instead of the thickets of the Cape, which "were ready to tear their clothes and armour in pieces," the Plymouth land had been cleared by the Indians and once planted in corn. In one field was a steep hill which would make a good place for a fort to watch for and defend against Indian attack. They laid out a street. On one side they marked off tiny lots for houses and gardens eight feet wide and forty-eight feet deep. The other side of the street and the land along the stream [were] for gardens and corn fields. At the top of the street was the hill where the fort was to be built. At the foot of the street they built their first building, a storehouse. . . . In the forest were trees with which they could build their fort and houses. The Pilgrims did not know how to build cabins with notched logs. For their first houses they just stuck two rows of small trees straight up in the ground, filled the cracks with stones and mud, left the floor bare ground, and covered all with a grass roof.

In this way the Pilgrims began their life in the new world. There were 101 colonists at Plymouth; 70 of them were grown men and women. None [was] really wealthy; few had been to school. Most had been farmers or farm managers in England. . . . Of those who had not been farmers, one was a tailor, one a barrel maker, one a shop keeper, another a ship's carpenter. Some were laborers, and one was a professional soldier. [In addition, some of the Pilgrims had knowledge of weaving, carpentering, bricklaying, printing, and barbering.]

The Pilgrims were greatly weakened during the first winter at Plymouth. All but seven of the settlers were struck by a "great sickness." "In two or three months' time half the company died . . . sometimes two or three a day" so that "of a hundred persons, scarce fifty remain, the living scarce able to bury the dead." They died of pneumonia, scurvy, and tuberculosis which were brought on by months of bad food, crowded and unclean living quarters, exposure and overwork. Four whole families were wiped out; just three married couples remained unbroken; just five wives lived; only among the Pilgrim children were deaths few.

In the forest were plants, wild life, and trees. In the running streams there was plenty of fresh water, but

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From Pittsburgh DEEP Project, *Economics Readings for United States History* (School District of Pittsburgh, 1966), pp. 3-5. William Bradford's statements are from *Bradford's History of Plymouth Plantation* (New York: Scribner's, 1908) as quoted in *Economics Readings*.

Handout 1-2 (concluded)

the Pilgrims preferred beer. They thought drinking water caused disease because the water in European towns at that time was badly polluted.

There were fish at sea which they hoped to use for food and for trade. The good fishing grounds were not in Plymouth Bay, however, but farther up the coast. To make matters worse, the Pilgrims had not brought proper hooks or nets with them from England. So they never caught many fish. But along the shore there were plenty of oysters, clams, and mussels, which were good to eat and easy to catch.

The forests were full of birds, deer, and beaver. The Pilgrims could have used these animals for meat and traded their furs. But they never really learned how to trap beaver, and they were too busy farming their fields and building their houses to take time to hunt properly.

A friendly Indian named Squanto . . . helped the Pilgrims. He showed them how to plant corn in little hills, and told them to put fish around the seed for fertilizer. They needed this fertilizer because the Indians had farmed this land for many years and so the soil around Plymouth was almost worn out. Squanto told them when the fish would come into their stream and how to build fish traps. Without the special knowledge which Squanto gave them, the Pilgrims would have surely starved, because the seeds of wheat and peas from England which they planted "came to nothing." Even with the help of Squanto it was three years before they learned how to plant and care for the corn well enough to have enough for both food for the winter and seed for the next year.

Lesson 2: Colonial Period

TIME REQUIRED: One class period

RECOMMENDED GRADE LEVEL: 9–12

CONCEPTS: Opportunity cost
Productive resources

Instructional Objectives: Students will

- Read about the economic life of the Pilgrims and then (1) spell out the choices confronting the Pilgrims in respect to the use of productive resources, and (2) describe the decisions they made and the opportunity costs they incurred;
- Apply the concept of opportunity cost to decide which alternative represents the best economic choice after they have been given information on the productive resources available in a specific region and the alternative uses for these resources;
- Define opportunity cost in their own words.

Rationale: The concept of opportunity cost is a crucial one in economics. Opportunity cost refers to what must be given up when decisions are made to use scarce productive resources to produce particular goods or services. A decision to produce one good means giving up the possibility of producing something else. Thus, a decision by the early settlers to use their resources for building houses meant that these resources could not be used to build forts; a decision by the New Englanders to use productive resources for shipbuilding meant that the same resources could not be used for farming.

Materials: One copy each of handouts 2-1, 2-2, and 2-3 for every student. Instead of making multiple copies of handouts 2-2 and 2-3, the teacher may prefer to show them on an opaque or overhead projector.

Procedure:

1. Distribute Handout 2-1. Allow time for reading.
   a. Ask: "What choices did the Pilgrims have to make concerning their use of resources?" Write student responses on the chalkboard. (Examples of choices that might be suggested are building houses vs. building forts, using fish for food vs. using fish for fertilizer, sharing an already short food supply with new settlers vs. eating corn set aside for spring planting.)
   b. Using the choices listed on the chalkboard have students discuss the consequences of choosing one alternative over another. For example, if students noted that the Pilgrims had to choose between using the fish they caught for food or for fertilizer ask: "What would be the consequences of eating all the fish?" Continue to have students discuss the consequences of other choices until the point is made that a resource used for one purpose is no longer available for other purposes. The "real" or opportunity cost of a decision to use a resource to produce a particular good or service is the alternative that must be given up or forgone.
   c. Ask: "Based on the discussion of consequences (opportunity cost) of various alternatives, would you have made the same decisions as the Pilgrims?" "Why or why not?"
2. Show or distribute Handout 2-2. Permit students to answer the question without commenting extensively on their responses or indicating which responses are best.
3. Show or distribute Handout 2-3. Allow time for students to study the tables. After ascertaining that students understand the production alternatives presented, have them discuss the questions below. (NOTE: It is important that students recognize that the figures given in the table are not actual historical data, but hypothetical units that roughly represent economic relationships in eighteenth century colonial America.)
   a. Which of the production possibilities offers the New Englanders the best return? Why? What would be the opportunity cost if New England chose alternative D? (New England's best production possibility is C because this results in the greatest total production. If alternative D is chosen instead of C, the opportunity cost of gaining one more unit of nonagricultural production is the loss of three units of agricultural production.)
   b. Which production possibility provides the best economic alternative for the South? (The South's best alternative is B because this results in the highest total production.)
   c. On the basis of the information given in Handout 2-2, are the production possibilities consistent with what you expected? (Students should answer that the South, for geographic reasons, would be predominantly agricultural, while New England could be expected to turn more to nonagricultural activities.)
   d. The tables deal with only two isolated factors. What other factors would the colonists have had to consider? (Students should be able to name a number of other considerations, e.g., military importance of certain economic activities such as shipbuilding, noneconomic preferences of the people for one activity over another, etc.)

Evaluation: Following are several suggestions for assessing student understanding of the concept of opportunity cost.

1. Have students define *opportunity cost* using their own words.
2. Have students read the textbook description of economic life in colonial America and answer the following questions:
   a. What economic decisions did the colonists make?
   b. Based on your assessment of the opportunity cost of these decisions, do you think the colonists used productive resources in the most profitable way possible?
3. Have students select one of the paired choices listed below. Give these instructions: Using current periodicals and your own knowledge state which alternatives you think represent the best use of our national resources and the opportunity costs of your choice. Before making your decision you should list in two parallel columns the advantages of each alternative choice. (NOTE: You may wish to add additional paired choices to the list or substitute other issues that are of greater concern to your students.)
   a. Building highways vs. providing public transit for urban areas;
   b. Creating jobs for the unemployed vs. decreasing pollution of the environment;
   c. Expanding national health care services vs. increasing expenditures for national defense.

Handout 2-1

THE PILGRIMS: ECONOMIC CHOICE

From the beginning, the Pilgrims were faced by the need to make economic choices. Once they were settled at Plymouth, they were very much afraid of Indian attack, yet they did not dare take the time and lumber needed to build a fort. It was December, and they needed shelter from cold, rain, and snow. They could not allow themselves the luxury of a fort to secure the settlement against possible future attacks. When spring came their greatest need was to plant corn so that there would be food for the next winter. There was also game in the forest which could give them meat. But men could not hunt and plant and hoe corn at the same time. That first spring the Pilgrims caught many herring in the fish traps Squanto had shown them how to build in the stream. Even though they were hungry, the Pilgrims could not eat all the fish they caught or salt them all to keep them for winter food, because some fish had to be used to fertilize the corn planting. They tended the corn carefully, and in the summer had their first crop. Again, the Pilgrims knew that they could eat only part of their harvest. They had to store some corn for winter food, and save some to use as seed the next spring.

The second winter the Pilgrims were hungry again, even though all summer they had stored fish and corn and salted meat. In November a ship from England brought 35 new settlers but no supplies—"not so much as a biscuit cake, . . . nor any bedding but some sorry things they had in their cabins, nor pot or pan to dress any meat in. . . ." The new people had few clothes, and those were not really proper for winter. Also, these people were not in very good health. What were the Pilgrims to do? They did not even have enough food for themselves. Should they share this food with the new settlers and spend another hungry winter? Or should they eat the corn set aside for the spring planting? They chose to share their small amount of food with the new people. Everyone had very little to eat again that winter.

For almost three years the Pilgrims' life at Plymouth was a fight to keep from starving. In the summer of 1623 their fortunes finally changed. The harvest came, "and instead of famine now God gave them plenty." For the first time all the farming families had enough corn for a whole year's needs. Some families even had corn left over to sell to others. The weather had been good since late spring. At last the Pilgrims had learned how to plant and care for corn properly. Since the last planting, the field work was done in a new and different way. The Pilgrims "began to think how they might raise as much corn as they could, and [get] a better crop than they had done. . . ." After much debate, they agreed that every man should plant his own corn, care for it himself, and harvest his own crop which he would keep. Before this time, everyone had worked in the common fields and the crop had been put in the storehouse and divided equally among all the settlers. Now every family had its own land to care for. "This had very good success, for it made all hands very industrious, so as much more corn was planted than otherwise." Even "the women now went willingly into the field, and took their little ones with them to set corn." After that summer of 1623, there never again was any general want or famine at Plymouth, but the Pilgrims kept working hard. They wanted to grow more than they needed just to stay alive. The Pilgrims hoped to use their extra goods to trade for other things they wanted, such as new tools, pans, guns, and cloth. They wanted to repay the debt they owed to the English merchants who paid for their trip to the new world.

In 1624 a ship from England brought "three [cows] and a bull, the first beginning of any cattle in the land." The next year the colonists found time to build a boat. Now they could sail along the coast. There was also time to shape logs into siding boards and roof shingles. The colonists could send these to England or use them to build better houses for themselves. The Pilgrims still owed money to the English merchants who had paid for their trip to America. In order to pay off this money, in 1627 they decided that they must produce some things that could be sold in England. For the most part, England grew enough food for its people, but furs were wanted. To produce more fur, the Pilgrims decided to specialize and let some men do nothing but trade for furs with the Indians. Others would

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From Pittsburgh DEEP Project, *Economics Readings for United States History* (School District of Pittsburgh, 1966), pp. 6-7. William Bradford's statements are from *Bradford's History of Plymouth Plantation* (New York: Scribner's, 1908), as quoted in *Economics Readings*.

Handout 2-1 (concluded)

grow the crops used for trade and to feed the traders. So a small group of men were chosen to be managers of the fur trading with the Indians. The rest of the settlers agreed to grow enough corn for these managers so they could spend all their time trading.

The Pilgrims soon discovered that the Indians would rather trade their furs for strings of beads made from pieces of clam shells (wampum) than for corn. The Pilgrims were delighted to discover this. Clam shells were easier for them to get than corn. Now they didn't have to use up as many of their scarce resources to get furs. They could now use the resources that were once used to grow corn for the fur trade for other things. They could grow tobacco, make boats, or cut logs into boards and shingles. The Pilgrims did send several ships loaded with furs and wood products to England. One of the ships sank. Pirates captured another. Between bad luck and bad business dealing, no profit ever came back to Plymouth. The Pilgrims were not even able to reduce their debt to the English merchants who had made the trip possible.

Handout 2-2

ALTERNATIVE ECONOMIC CHOICES

HOW WOULD YOU APPLY LIMITED LABOR AND CAPITAL IN EACH OF THE TWO CASES BELOW?

Alternate Economic Activities
Agriculture
Fishing
Commerce and trade
Shipbuilding
Manufacturing

In **NEW ENGLAND** agricultural land was sufficient to feed farm households, but production was limited by short growing season, poor soil, and hilly terrain. Fish and whales abounded off the coast and the nearby fishing banks. New England possessed an irregular coast that offered many deep bays and harbors. Fast-flowing streams were a source of water power and the New England forest, a rich source of timber.

In the **SOUTHERN COLONIES** the climate ranged from mild temperate to subtropical; rainfall was plentiful in the rich coastal plain. Such conditions were suited to the production of tobacco, rice, and indigo, all of which required relatively high labor inputs but were in such demand in England that the English government paid bounties for their production.

From William Murphy, *Strategies and Materials for Topic III, American Economic Life* (Geneseo, N.Y.: Published by The Genesee Region Council on Economic Education for the New York State Department of Education, 1971), p. 18.

Handout 2-3

MODELS OF PRODUCTION POSSIBILITIES

The following table shows two hypothetical sets of possibilities. Suppose that using all the labor available, the New England states could produce any of the combinations of total output, A through F in part I of the table, and the Southern states could produce any of the combinations of total output, A through F, in part II of the table. All figures are in millions of dollars.

PART I—NEW ENGLAND
Production Possibilities for Using Labor in Colonial New England among Alternative Activities

Situation	A	B	C	D	E	F
Nonagriculture	0	3	6	7	8	9
Agricultural	13	12	10	7	5	0
Total output	13	15	16	14	13	9

PART II—SOUTH
Production Possibilities for Using Labor in the South among Alternative Activities

Situation	A	B	C	D	E	F
Nonagriculture	0	2	3	4	5	6
Agriculture	20	19	15	11	6	0
Total output	20	21	18	15	11	6

From William Murphy, *Strategies and Materials for Topic III, American Economic Life* (Geneseo, N.Y.: Published by the Genesee Region Council on Economic Education, 1971), p. 19.

Lesson 3: Colonial Period (18th Century)

TIME REQUIRED: Two or three class periods

RECOMMENDED GRADE LEVEL: 8–11

CONCEPTS: Voluntary exchange
Interdependence
Specialization

Instructional Objectives:

- Given resource maps of three unidentified regions, students will:
  1. State which resources are available and which are unavailable in each region;
  2. List the goods and services that could be produced with the available resources and eighteenth century technology;
  3. State hypotheses as to the types of regional specialization and patterns of trade likely to develop within and among the regions.
- Given background materials (textbook or supplemental readings) describing the resources and economic development in the New England, middle, and southern colonies, students will:
  1. Match the unidentified maps to the appropriate colonial region;
  2. Confirm or revise previously stated hypotheses about regional specialization and trade patterns.

Rationale: Each colony's available resources were inadequate to produce all the goods and services demanded by the colonists. While no colony had all the land, labor, and capital it wanted, individual colonies experienced both relative abundance and relative scarcity of one or more factors of production. In the course of time, these colonies specialized, allocating their scarce resources to the production of those goods and services they could produce or do best. This specialization resulted in voluntary exchange among colonies and with the mother country, thus allowing them to make fullest use of their resources. Specialization also created interdependence by forcing the colonies to rely on others for goods and services they no longer provided for themselves.

Materials: Enough copies of handouts 3-1, 3-2, and 3-3 for the assigned group (see Procedure 1, below.) One copy each of handouts 3-3 through 3-8 for every student.

Procedure:

1. At the beginning divide the class into three groups that will represent Region A, Region B, and Region C. Distribute handouts 3-1, 3-2, and 3-3 accordingly. (The maps represent the New England, middle, and southern colonies, but the students should not be told this until the end of the lesson.)
2. Have students pretend they are living in the eighteenth century. Each group should study the map of its region and then answer the following questions:
   a. What factors of production or productive resources does your region have? (The maps show only natural resources, i.e., forests, rivers, minerals, wild rice, etc.)
   b. What goods and services would it be possible to produce using only these natural resources and eighteenth century technology? (This question asks students to assume that human resources and some tools are available.)
   c. Explain why the goods and services identified in (b) above cannot be produced in unlimited quantities. (Small population from which workers can be drawn and limited technology and tools.)
   d. What are some of the alternative uses of your region's natural resources? (Wood can be used for fuel or it can be used for furniture, land can be used for grazing sheep or for planting tobacco, etc.)
   e. What goods and services will the people in your region need in order to live reasonably good lives? (Food, clothing, shelter, protection, government, etc.)
   f. What other productive resources could help your region produce more goods? Specify kinds of land, labor, or capital. (Answers are open-ended.)
3. Have each group report its conclusions to the class. Write the letters designating the three regions (A, B, C) across the top of the chalkboard. As reports are made, record group responses to the questions under the appropriate regional designation. Point out the similarities and differences between regions.
4. Using the information from Procedure 3, ask each group to prepare answers to the following questions, which you should write on the chalkboard:
   a. With existing resources and technology, in which goods and services should your region specialize? Why do you think these choices constitute the best use of your region's resources? (Answers will vary depending upon the region.)
   b. What problems might your region face as a result of specialization? What is the trade-off? (Dependence on others for markets and for certain goods and services. Less self-sufficiency is the trade-off to gain a higher standard of living through more productive use of scarce resources.)
   c. What exchange could occur between your region and the other two regions? (Raw materials such as cotton, lumber, and tobacco will be supplied to the market and the sup-

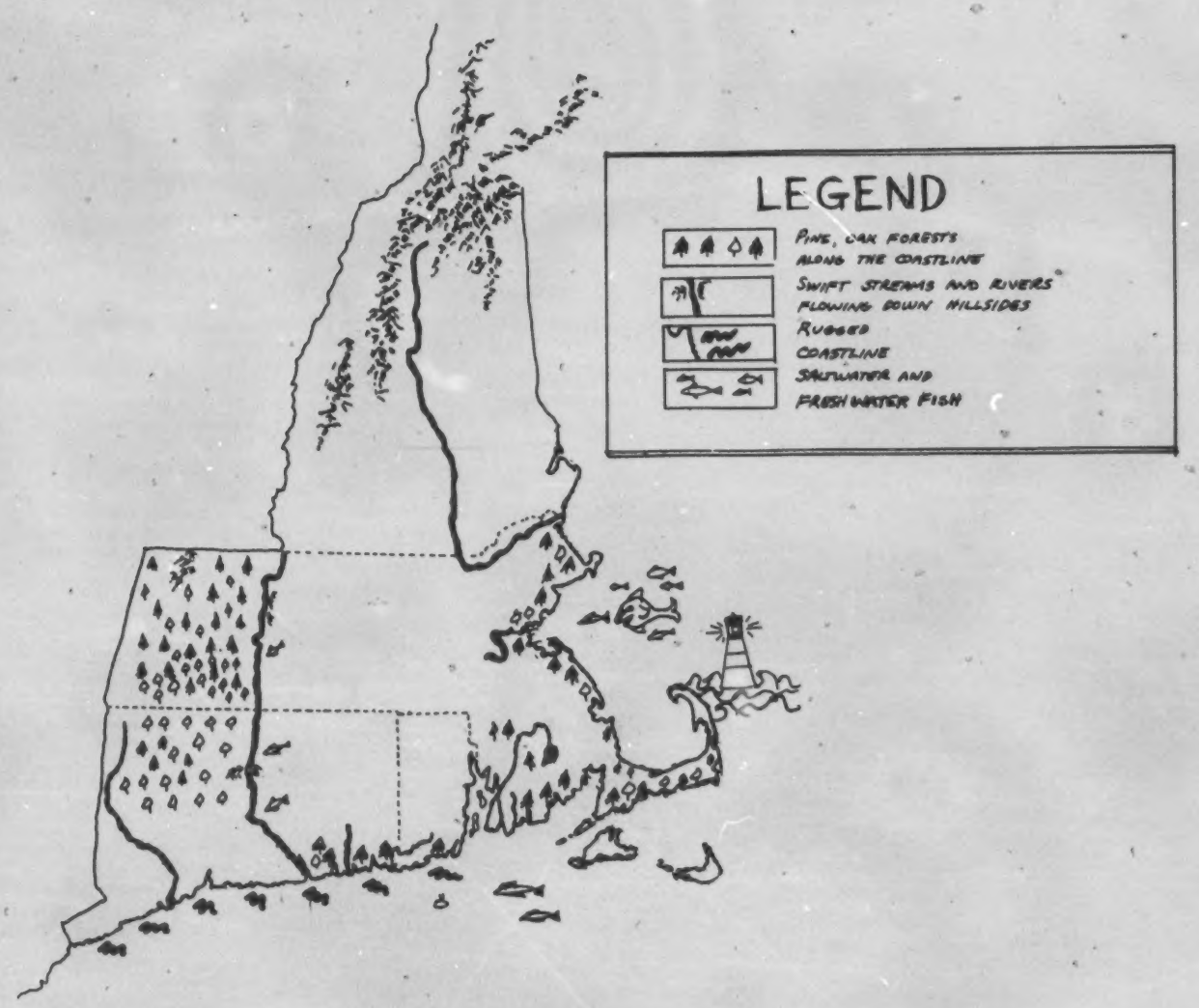
pliers might in return buy such things as fish, cloth, and shipping services. The details will depend on the regions involved and the imagination of the students.)

5. Distribute handouts 3-4, 3-5, and 3-6 to all the students. After allowing sufficient time for reading, have students:
   a. Identify the colonial region represented by each of the three (A, B, C) regional resource maps used in the previous exercises;
   b. Compare the group conclusions reported in Procedure 4 with economic developments as described in the readings for the New England, middle, and southern colonies.

Evaluation: Distribute Handout 3-7. Have each student use the information on the maps to write answers to the questions at the end of the handout, in the space provided there.

Handout 3-1

RESOURCE MAP: REGION A


LEGEND
PINE, OAK FORESTS ALONG THE COASTLINE
SWIFT STREAMS AND RIVERS FLOWING DOWN HILLSIDES
RUGGED COASTLINE
SALTWATER AND FRESHWATER FISH

a. What factors of production or productive resources does your region have?
b. What goods and services would it be possible to produce using only these natural resources and eighteenth century technology?
c. Explain why the goods and services identified in (b) above cannot be produced in unlimited quantities.
d. What are some of the alternative uses of your region's natural resources?
e. What goods and services will the people in your region need in order to live reasonably good lives?
f. What other productive resources could help your geographic area produce more goods? Specify kinds of land, labor, or capital.

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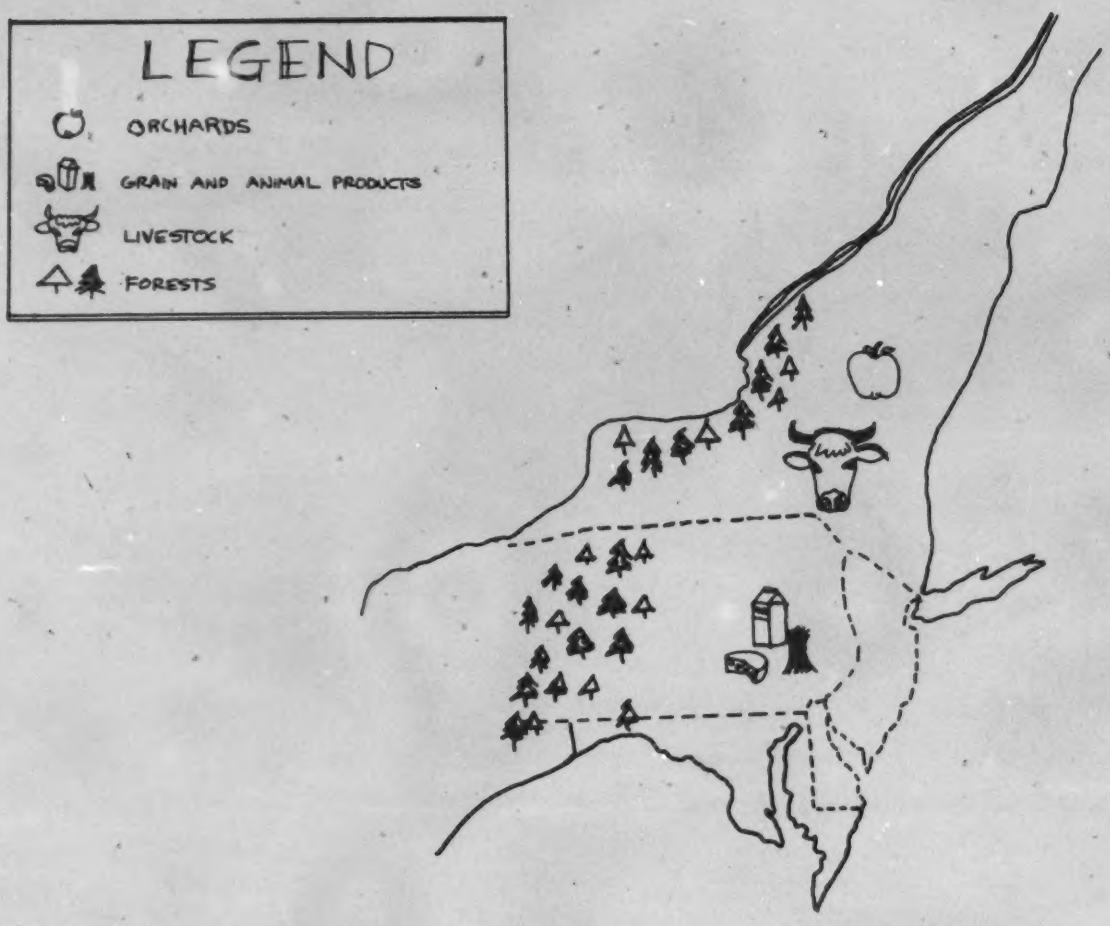
Handout 3-2

RESOURCE MAP: REGION B



a. What factors of production or productive resources does your region have?
b. What goods and services would it be possible to produce using only these natural resources and eighteenth century technology?
c. Explain why the goods and services identified in (b) above cannot be produced in unlimited quantities.
d. What are some of the alternative uses of your region's natural resources?
e. What goods and services will the people in your region need in order to live reasonably good lives?
f. What other productive resources could help your geographic area produce more goods? Specify kinds of land, labor, or capital.

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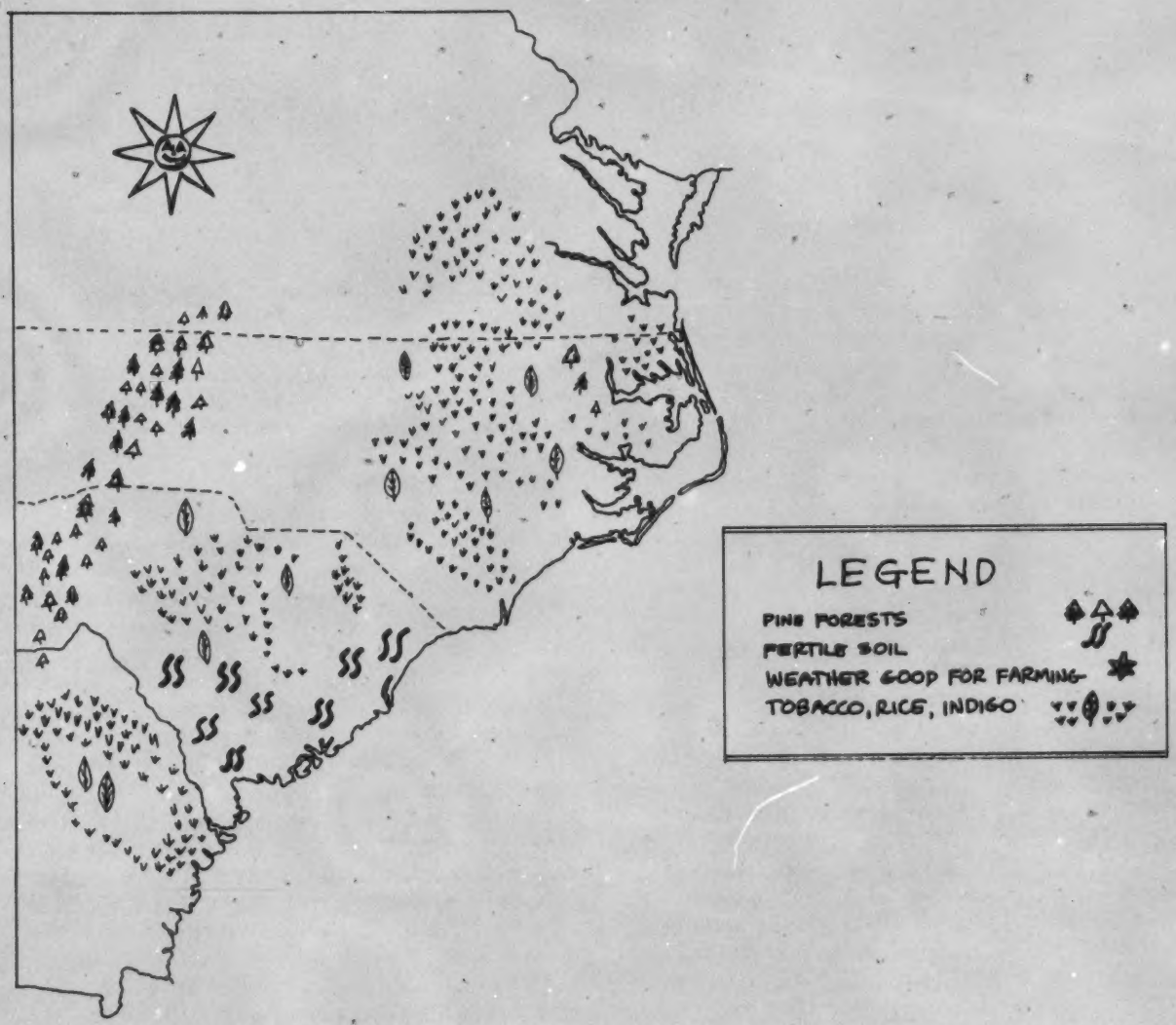
Handout 3-3

RESOURCE MAP: REGION C



a. What factors of production or productive resources does your region have?
b. What goods and services would it be possible to produce using only these natural resources and eighteenth century technology?
c. Explain why the goods and services identified in (b) above cannot be produced in unlimited quantities.
d. What are some of the alternative uses of your region's natural resources?
e. What goods and services will the people in your region need in order to live reasonably good lives?
f. What other productive resources could help your geographic area produce more goods? Specify kinds of land, labor, or capital.

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Handout 3-4

THE NEW ENGLAND OR NORTHERN COLONIES

The land of the New England colonies was rocky and hilly; the soil was thin and poor. The New England colonists produced enough food for their own needs, but they did not produce enough food to sell to others. They did, however, use the land as pasture for horses, which they sold in the West Indies.

The New England hills were covered with pine and oak forests which grew right down to the shore. The land was well watered with swift streams and rivers flowing down the hillsides and the valleys. The coast was not smooth but full of big and little bays which formed many natural harbors good for all kinds of ships. In season there were plenty of fish in both the ocean and the freshwater streams. The tall pine trees provided ideal wood for masts of colonial fishing and trading ships, and also for English merchant and warships. The falling water was used to power sawmills to cut the big logs into timber, planking, and boards. These were used to build ships and houses in New England and the West Indies. Yankee businessmen had a very clever idea, anticipating the modern prefabricated house. Even before the Revolutionary War, New England lumber merchants were shipping to the West Indies house parts ready to be put together. The strong oak was made into barrel parts for West Indian sugar and molasses, for New England rum, or for the wines of Spain and the Atlantic islands. Local shipbuilding, good harbors, oceans and streams with fish made possible successful fishing. Later New England colonists went whaling and produced whale oil for sale. At an early date New England's resources led her away from farming and into shipbuilding for trading.

The Puritans, when their colony was little more than ten years old, found a good market for fish. This led them into other trading ventures. When the fish were not running well, a man with a boat could take a mixed cargo aboard and sail down the coast, stopping at every little village. A smart man with horse-trader sense could come home much better off than when he started. Trips down the coast led to bigger things. New Englanders traded lumber in the West Indies for molasses, the main ingredient of rum. This led to making rum in the Northern colonies. The rum, in turn, was traded in Africa for slaves. From Africa the ships went to the West Indies or the Southern colonies where the African slaves were sold. Besides carrying their own products, the New England merchants carried goods for others and arranged for the buying and the sale of these goods. Providing these services became a very important source of income and employment for the New England colonies.

From Pittsburgh DEEP Project, *Economics Readings for United States History* (School District of Pittsburgh, 1966), pp. 17-18.

Handout 3-5

THE MIDDLE COLONIES

In contrast to the rocky hills of the New England colonies, the middle colonies had many large fertile valleys lying between smooth rolling hills. Besides English settlers, here there were many Dutch, German, and Swedish settlers, who brought with them many Old World ways of farming. Grains and animal products became the main products of the middle colonies.

Growing wheat and barley and raising livestock do not take large numbers of workers. A fairly large stock farm can be run with a few hands. The grain crops need large amounts of work during the planting and harvesting seasons, but not much at other times. In the middle colonies, a family with the added help of one or two hired workers or indentured servants could take care of a large farm. During the planting and harvesting seasons, families helped each other get the major tasks done. The countless little jobs, such as fences to mend, tools to make, roofs to repair, were done throughout the year as time allowed.

The goods produced in the middle colonies were not in great demand in England, as England was largely self-sufficient in farming. The colonists had to search around for other markets for their products if they wanted to earn enough to buy goods made in England or other European countries.

The inhabitants of the middle colonies found that it was easier to ship their food products if the grain was ground into flour and the animals butchered and salted so that the meat would not spoil. Many little mills grew up in these colonies to grind wheat into flour and corn into meal. The middle colonists found that there was a good market for grain and meat products in the West Indian islands. The people there could make more money growing sugar than growing food crops. Also, some parts of southern Europe were not able to grow enough food to feed all their people. Grain and meat from the middle colonies could be shipped to the West Indies and traded for sugar or fruit. The sugar or fruit then could be traded in England for cloth and manufactured goods to be brought back to the colonies. Or, the grain and meat could be sent to southern Europe and traded for wine. Then the wine could be taken to England and traded for the goods the middle colonies wanted.

The middle colonies did not build as many of their own ships as the northern colonies. Much of their trade was done in ships from England or New England. The forests in the middle colonies were not as close to the sea as those in New England, and most of the settlers knew more about farming than they did about building ships. It was harder and cost more to get the trees to the coast. It was more profitable to burn the trees and stumps left from clearing farmland and sell the ashes (potash) for use in making soap and glass. There was some production of lumber and ships in the middle colonies, but there was less than in New England.

From Pittsburgh DEEP Project: *Economics Readings for United States History* (School District of Pittsburgh, 1968), pp. 18-19.

Handout 3-6

THE SOUTHERN COLONIES

In the southern colonies there were some pine forests and woods with a good supply of wild deer and other game. Deerskins were the earliest important export product of the South. The soil and the weather here were also very good for farming. A large flat plain spread far inland from the coast. There was plenty of rain and a long growing season.

After providing the food, clothing, and shelter they needed to stay alive, the early colonists spent most of the time they could spare growing tobacco for sale in England. Tobacco was one of the "enumerated" goods (products that could be shipped only from their place of origin to England or one of its colonies). With the money from the sale of tobacco, the colonists bought the manufactured goods they wanted from England. Ships went back and forth directly between the southern colonies and England. There was also some trade between the southern and northern colonies. Because of this trade pattern, the southern colonists did not build up a shipping industry or shipping services of their own. The southern colonists were planters. They spread out over the land. A single ship (generally English, but sometimes from New England) would make a large profit just sailing back and forth between English ports and the southern colonies. It would carry goods from each end of the route to be sold at the other. A ship loaded with imported goods from England, such as cloth and household goods, would nose its way up the rivers spreading like arms from Chesapeake Bay. Along the river banks the English goods were unloaded at little plantation wharfs. In their place big bundles of tobacco (called hogsheads) were loaded onto the ships.

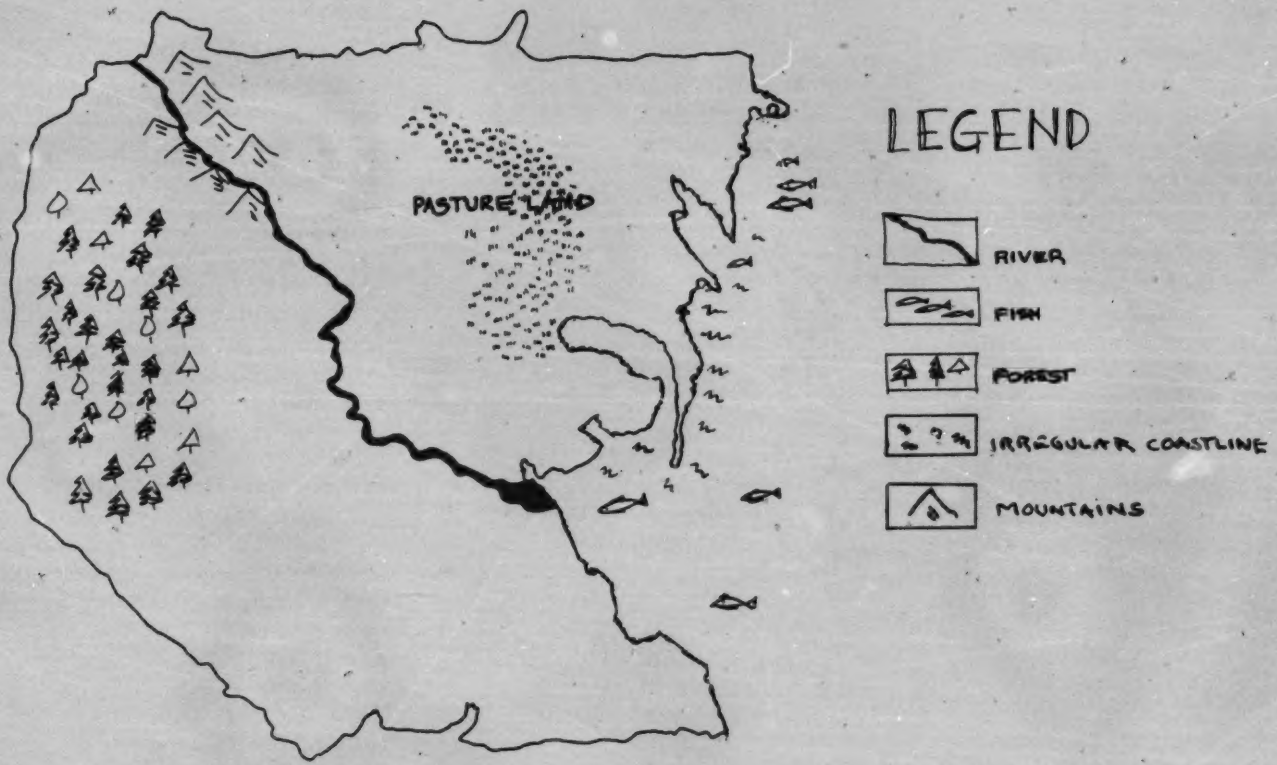
Growing an acre of tobacco takes much more labor than growing an acre of most other crops. A great deal of labor is needed not only at planting and harvest time, but also during the growing season. Most of the work must be done by hand. The jobs are simple and must be repeated over and over. They can be done by large groups of unskilled workers supervised by a single foreman.

Certain parts of the South, particularly South Carolina, were well suited to growing rice. It too became an important export crop. Rice and indigo were grown together on the same plantation. All three crops needed a large source of unskilled labor. Slavery filled this need. Most of the rice and indigo were shipped to England from Charleston, which became the first large southern port. It was not until after the Revolution that the diverse goods trade activity in Chesapeake Bay began to be concentrated in Baltimore. The rice trade, like the tobacco trade, was carried mostly in English ships and handled by English and Scottish merchants.

Adapted from Pittsburgh DEEP Project: *Economics Readings for United States History* (School District of Pittsburgh, 1966), pp. 19-20.

Handout 3-7

MAP OF XLAND



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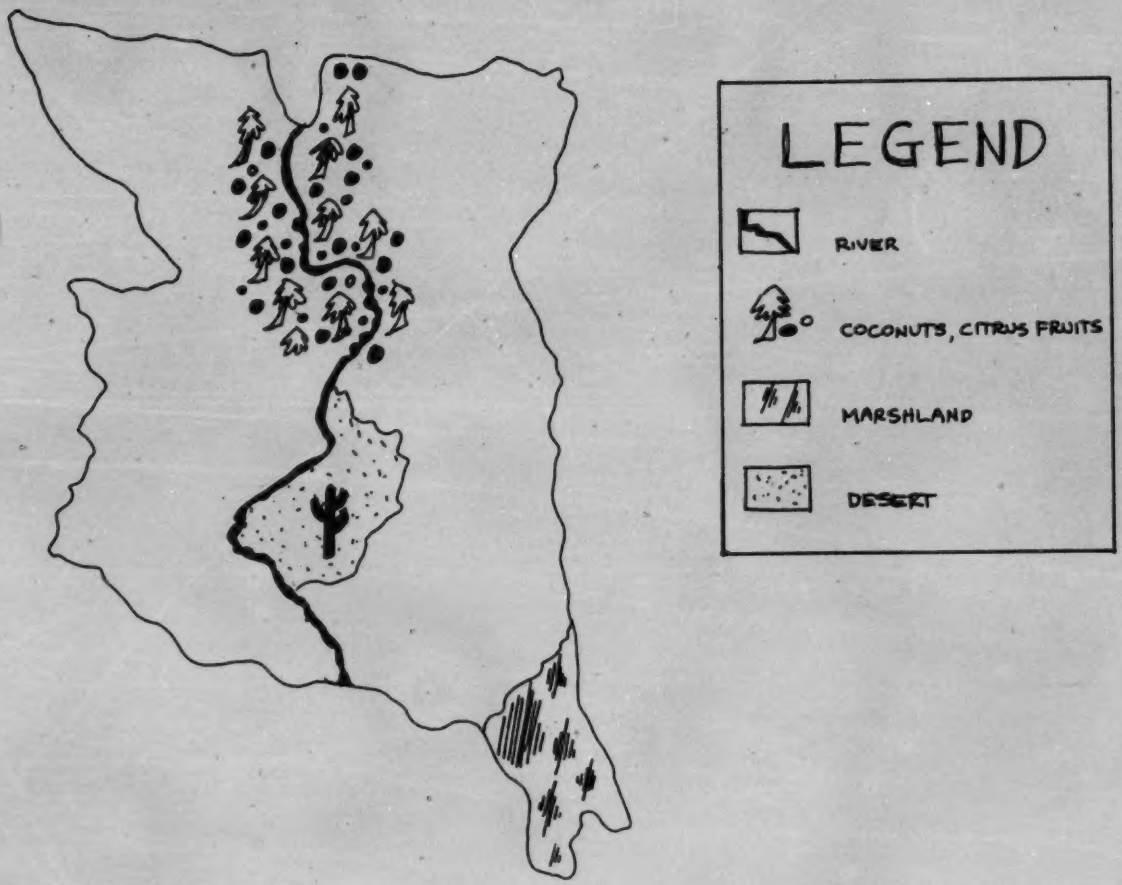
Handout 3-7 (continued)

MAP OF YLAND



From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York NY 10036.

Handout 3-7 (concluded)

Name _____ Class _____ Date _____

1. With existing resources, what type of specialization would develop in each region?

2. What voluntary trade patterns could develop between Xland and Yland?

3. How would specialization benefit each region? What would be the costs of specialization?

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Lesson 4: The Jacksonian Period

TIME REQUIRED: Two class periods

RECOMMENDED GRADE LEVEL: 11–12

CONCEPTS: Functions of money
Causes of inflation
Changes in price levels
(NOTE: If students are unfamiliar with index numbers, the calculation of percentages, and the concept of inflation, this activity will require more time than indicated.)

Instructional Objectives: Students will be able to

- List three basic functions of money;
- List three forms of money commonly used in the 1830s;
- Compute the percent change in the growth of paper money and specie between 1832 and 1836;
- State their own views on the effects of changes in the money supply on the economy;
- Compare their views with those in a standard textbook that describes the causes of inflation during the Jacksonian Period.

Rationale: High school history textbooks have come under increasing attack from economic historians on the ground that their descriptions of the causes of various economic developments often conflict with available data. This lesson gives students an opportunity to compare statements in their texts about the cause of inflation between 1832 and 1836 with the behavior of prices and the money supply at that time.

Materials

1. Film, *Money and Its Uses*, available from Encyclopedia Britannica Educational Corporation, Instructional and Library Services, 425 North Michigan Avenue, Chicago, IL 60611; or use publications of the Federal Reserve Bank of New York;
2. A one-dollar bill;
3. One copy each of handouts 4-1 and 4-2 for every student.

Procedure:

1. Show *Money and Its Uses* (27 minutes) to illustrate the importance of a sound currency and the functions of money.

   Alternative Procedure: If the film is not available, display a dollar bill and ask: "What basic functions are performed in the economy by this dollar bill?" In the discussion students should mention the following basic functions of money:

   a. MEDIUM OF EXCHANGE. Money is anything generally acceptable for the making of payments or the discharging of debts. Money serves to facilitate trade and other economic exchanges. Without the existence of money, people would have to use barter to exchange goods and services.

   b. STANDARD OF VALUE. Money provides a common denominator through which we express the value (prices) of all economic goods. These prices give us a means of comparing the values of different commodities, for example, how the cost of a pound of spaghetti compares to the cost of a pound of potatoes.

   c. STORE OF VALUE. Money enables us to store values we accumulate so that we can use them at a later time, i.e., it provides a convenient means of saving or adding to our wealth. People can "store" in the form of money the value of the things they sell—be it their labor, or cabbages, or cars, or used furniture. If the purchasing power of money changes a great deal because of inflation or deflation, the efficiency of money as a store of value is impaired.

2. A particular form of money may fulfill the foregoing functions regardless of what is used to serve as money. In the Jacksonian period, gold and silver were used as money in addition to coins of baser metal and paper currency. As a home assignment (or if time permits in class) ask students to review the section in their U.S. history textbook on economic developments during Andrew Jackson's presidency, especially his second term (1832-36). Have them write down the conclusions in the text regarding the causes of inflation during Jackson's administration. Set this paper aside for later reference.
3. On the second day distribute Handout 4-1. Explain each column of figures but do not draw inferences.

   Column 1: The year for which the data is given.

   Column 2: An index of changes in the price level. When explaining, relate this index to the present national Consumer Price Index now issued once a month. The change from 91 to 95 from 1832 to 1833 indicates that prices increased 4 percent in that period (see Column 3).

   Column 4: Specie represents the value of gold and silver in circulation. (Gold was part of the U.S. money supply until 1934. Note that specie is also included in the figures in Column 6, along with paper currency.)

   Column 5: Represents the percent change in the amount of specie from one year to the next. For example, the change in specie from 1832 to 1833 was +$10 million; 10/31 = 0.32, which means specie increased by 32 percent.

Column 6: Represents the total money supply (paper money and gold and silver) in the United States during each year from 1832 to 1836.

Column 7: Represents the percent change in the money supply from one year to the next. For example, the change in the money supply from 1832 to 1833 was +$18 million; 18/150 = 0.12, which means the money supply increased by 12 percent. You may desire to leave the remainder of this column blank and have students calculate the rest.

4. Divide the class into small groups and give each student a copy of Handout 4-2. Review the instructions. Have the groups again examine the table in Handout 4-1 carefully and then answer the questions in Handout 4-2. (NOTE: In question d, the relation between the percent increases in the total money supply and the price index are not exact. The rate of increase in the money supply in general climbs faster than the rise in the price index. The implication is that increases in the money supply do not fully explain the behavior of the price index in 1832-36. Apparently, as in many periods of inflation, there were several contributing causes to that inflation.)
5. After allowing sufficient time for group discussion and the formulation of statements, have students compare their statements with the statements made in their textbook about the causes of inflation during the Jacksonian era.

NOTE: Following are examples of statements taken from two different textbooks:

TEXT 1: "In every case the state banks, using the federal deposits as backing, issued too many bank notes, which encouraged inflation."

TEXT 2: "[B]oth the 'pet banks' and other state banks lent money on easy terms . . . leading to inflation."

After examining the table students should detect that such statements could be considered inaccurate. In this particular instance, inflation was probably also caused through the increase in specie as well as through the creation of paper money by the banks. Furthermore, the table does not provide information about the rate at which money was spent, i.e., its "turnover"; the faster or slower the turnover, the larger or smaller the effective money supply. Furthermore, students do not have information on nonmonetary causes. For example, was there a sufficient amount of land, labor, or capital with which to supply the then current level of demand? If not, prices might have risen because demand would have exceeded supply.

Evaluation: Have students use their textbooks and any other sources available to prepare a critique of the following statement: "Land speculators who greedily bought western land to sell at large profits were solely responsible for the huge rise in price levels between 1832 and 1836."

Handout 4-1

MONEY SUPPLY AND PRICE LEVELS, 1832-36

Year (1)	Index of Prices		Specie		Total Money Supply	
	Base: 1834-42 = 100 (2)	Yr.-to-Yr Percent Change (3)	Millions of Dol. (4)	Yr.-to-Yr. Percent Change (5)	Millions of Dol. (6)	Yr.-to-Yr. Percent Change (7)
1832	91	—	31	—	150	—
1833	95	4	41	32	168	12
1834	90	−5	51	24	172	2
1835	108	20	65	27	246	43
1836	122	13	73	12	276	12

SOURCE: Compiled by R. W. Fogel and S. L. Engerman, "Money, Prices and Banks in the Jacksonian Era," *The Reinterpretation of American History* (New York: Harper & Row, 1971), p. 451, as follows: Column 2 is from Walter Buckingham Smith and Arthur Harrison Cole, *Fluctuations in American Business, 1790-1860* (Cambridge, Mass.: Harvard University Press, 1934), p. 158; columns 3 and 5 are from Peter Temin, *The Jacksonian Economy* (New York: W. W. Norton, 1969), pp. 71 and 159. Reprinted here by permission of the publishers.

Handout 4-2

QUESTIONS ON HANDOUT 4-1, "MONEY SUPPLY AND PRICE LEVELS, 1832-36"

Prices rose considerably in the period 1832-36, which indicates the presence of inflation. Economists believe that inflation is usually associated with unduly large increases in the money supply. Your group is to examine the table carefully and do the following:

a. Write a statement about the percent changes in the supply of specie in 1833 and in 1834.

b. Write a statement about the effect of this change on the total money supply.

c. Write a statement about how a change in the total money supply is likely to affect prices.

d. Write a statement about the general relation of the percent increase in the total money supply to the percent increase in the price index during the entire period covered by the table.

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Lesson 5: Westward Expansion

TIME REQUIRED: Three class periods if reading takes place in class

RECOMMENDED GRADE LEVEL: 11–12

CONCEPTS: Economic incentives
Government allocation policies

Instructional Objectives: Students will

- State the policy alternatives available to the U.S. government for the disposal of public land;
- State the economic incentives for migrating west during the late eighteenth and early nineteenth centuries and the policies that made these incentives effective;
- Based on an examination of public land laws analyze all the policy alternatives for allocating land which were actually adopted by the U.S. government between 1785 and 1865.

Rationale: In a market economy a most important motivating force behind economic behavior is individual self-interest. In promoting their self-interest individuals act not only individually but also form themselves into groups and use group pressure to achieve their goals. Such was the nature of the Claim Clubs of the early West. Through the Claim Clubs, early migrants who lacked sufficient resources to acquire land under the provisions of the public land laws sought to protect their claims to the lands on which they had settled by enforcement of "priority rule," by which ownership was conferred on those who arrived first. (NOTE: National land policy was initially designed primarily to raise revenues for the debt-ridden new government. During the nineteenth century the territorial possessions of the United States more than doubled in size. This created a new situation. If these acquisitions were to be rapidly settled, land policies were needed that would induce people to risk moving to remote and often hostile areas. One strategem was to use public auctions to allocate the available public land quickly.)

Materials: One copy each of handouts 5-1 through 5-5 for every student. (The teacher may prefer to show handouts 5-2 and 5-4 on an opaque or overhead projector.)

Procedure:

1. DAY ONE. Distribute Handout 5-1. Allow time for reading; then ask:
   a. What alternatives did the government have for disposal or allocation of western land? (Keep the land as a national heritage; make the land available in large or small parcels to individual settlers, groups of settlers, or speculators at high or low prices; sell the land on credit or for cash; offer the land as a subsidy to business enterprise; give the land away.)
   b. If the objective was to raise revenues, which of these alternative allocation mechanisms would you expect the government to choose? (Student discussion of the extent to which various options would result in filling the national treasury should be open-ended. List suggested options on the board for future reference.)
   c. Which alternatives would most likely promote rapid settlement of western land? Why? (Repeat process of open-ended discussion and listing of options.)
   d. Which alternative is considered most fair? Why? (Allow time for student discussion. Replies will depend upon students' definitions of what is fair.)
2. Distribute or project Handout 5-2. Allow time for study; then ask students the following questions:
   a. Based on the provisions of the Land Ordinance of 1785, what do you think was the major objective of government land policy—to raise revenues, promote rapid settlement, or keep land in government hands for a time? (Raise revenues.)
   b. Do you think the land policy objective was the same in 1796? (Yes.)
   c. On what evidence do you base your answer? NOTE: In responding, students should compare provisions of the public land laws from 1785 to 1804. They should also refer to the policy options the class developed earlier. The major objective of national government land policy in 1796 appears to have been to raise revenues for the new government. In 1800 and 1804 the minimum acreage purchasable was lowered and terms of payment were eased. The importance of changes in minimum acreage should not be underestimated. The practice of selling land only in large parcels is not the best way to promote rapid settlement when few individuals can afford the price, or have sufficient resources to bring such large tracts under cultivation.
3. DAY TWO. Distribute Handout 5-3. Allow time for reading. Then, ask students to work out answers to the questions in the handout. Students may be assigned to work in small groups. Allow about 15 minutes for group work and then discuss answers with full class. (NOTE: If sufficient time is available on Day One, handout can be distributed that day, and students can work out answers as an overnight assignment.)
   a. What was the major economic incentive for individuals and families to migrate west? (Ownership of land.)
   b. To what extent do you think people like those

described in the reading were able to acquire land under the terms offered by the national government prior to 1820? (Open-ended answer.)

(1) What was the minimum amount of money needed to purchase federal land in 1785? 1796? 1800? 1819? (Have students refer to Handout 5-2 to calculate total costs.)

(2) Can we assume that land was always available at the minimum price? (No.) Why or why not? (The auction process—competitive bidding—tended to favor land companies and speculators. With their vast cash reserves these groups were able to outbid ordinary farmers and as a result federally owned land prior to 1820 was seldom available at the minimum price.)

c. Aside from the cost of the land, can you think of other factors that may have prevented many of the landless poor from migrating to the West? (Allow students to suggest a wide range of reasons why some people would not have wanted to migrate. These might include factors such as the difficulty of travel, resistance of the Indian tribes, state of health, etc.)

d. Which group gained the greatest economic benefit from the arrangements made for the selling of federal lands—poor farmers or wealthy planters? What evidence is there to support your answer? (There is evidence that wealthy planters benefited because poor farmers in the East sold out and moved west. However, one could argue that the availability of large tracts of western land enabled poor farmers to start over again if they moved westward. Many poor farmers became "squatters" on the western lands. Wealthy farmers in the East did not have the incentive to move into the wilderness, although some went west to speculate and others invested in land companies.)

e. What changes were needed in the government's land policy to induce a large number of people to relocate in the West? (Answer should be left open-ended. In responding, however, students ought to refer to the list of government actions suggested at the beginning of the lesson for promoting rapid settlement. Additional or revised student suggestions should be listed on the board.)

4. After brief discussion of question 3e, distribute or project Handout 5-4. Allow time for students to study the table; then have them point out the changes the class said were needed and that were included in land policy after 1820. Also have them point out and discuss possible reasons for changes they did not anticipate. (For example, the laws passed in 1820, 1832, and 1841 required payment in cash. Students may have anticipated the opposite to occur, i.e., they may have indicated the need for more liberal credit. The cash-payment requirement, however, did not necessarily act as a deterrent because people were often able to borrow money from the state banks.)

5. DAY THREE. Distribute Handout 5-5. Go over difficult vocabulary in advance; have dictionaries available, or provide a glossary of key words. Allow time for reading; then have students discuss the questions. In question c of the handout, if students have difficulty suggesting reasons, have them refer to the first paragraph of Handout 5-1 or to their textbook analyses of the land acquisitions of the U.S. government after 1841. Students should find that much western land was unsuitable to eastern farming methods, very long journeys were necessary to reach this land, travel and settlement in territories occupied by western Indian tribes was hazardous, etc.

Evaluation: Have students discuss orally or write an essay on how well the interests of various individual Americans were served by government land policies between 1785 and 1865.

Handout 5-1

THE ACQUISITION AND DISPERSION OF THE PUBLIC LAND*

Of the two billion acres that comprise the continental United States today, the Federal government at one time or another owned 1.4 billion, or 70 percent. The accumulation of the public domain began as a by-product of the Articles of Confederation. The six states that had no claims to Western land refused to ratify the Articles unless the seven states that had such claims ceded their outlying territories to the Federal government. In 1780, New York did so, and the others followed between 1784 and 1802. This original acreage was later augmented by purchase and appropriation. The Louisiana Purchase, in 1803, doubled the original area at a cost of $15 million, or less than 3 cents an acre. In 1819, 46 million more acres were added when Florida was bought from Spain for $5 million. In 1846, diplomacy settled a boundary dispute with Great Britain and attached to the rapidly growing nation 183 million acres of Oregon territory. At the close of the Mexican War, in 1848, $15 million was paid to Mexico for 339 million acres in New Mexico and California; and in 1853, the Gadsden Purchase brought our government 19 million acres more for $10 million.

At the same time that the government was acquiring land, it was also disposing of it. Indeed, in a period of less than 150 years it sold or gave away about one billion acres. The manner in which this was done was of inestimable importance in determining how rapidly the land would be settled and of equal importance in affecting the American scale of living.

In formulating its land policy, the Federal government had a number of choices. It could keep the land as a national heritage; it could make the land available in large or small parcels to individual settlers, groups of settlers, or speculators, or offer the land as a subsidy to business enterprise; it could sell the land on credit or for cash at a high or low price; or it could give the land away. Over the course of history, Federal land policy evolved gradually, covering the whole gamut of alternative choices, except sales at a high price. As a generalization, however, it can be said that the objective changed from revenue raising, to rapid settlement, and, finally, to conservation.

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* From Herman E. Kross, *American Economic Development: The Progress of a Business Civilization*, 3rd edition, © 1974, pp. 88-89. Reprinted by permission of Prentice-Hall, Inc., Englewood Cliffs, New Jersey.

Handout 5-2

PUBLIC LAND LAWS PRIOR TO 1820

Instructions: Use the table and background paragraph below to assist you in the discussion.

Year	Allocation Process	Minimum Purchase	Minimum Price per Acre	Method of Payment
1785	Auction*	640 acres	$1.00	Cash
1787	Auction	640 acres	$1.00	Cash or credit. If credit, one-half downpayment & balance in 3 months
1796	Auction	640 acres	$2.00	Cash or credit. If credit, one-half downpayment within 30 days & balance due in 12 months
1800	Auction	320 acres	$2.00	Cash or credit. If credit, one-fourth downpayment and one-fourth at end of second, third, and fourth years
1804	Auction	160 acres	$1.64 $2.00	Cash Credit: same terms as in 1800

*Competitive bidding

Background:
While the prices per acre shown in the above table doubled after 1787, there was also a considerable rise (i.e., inflation) in most other prices after that year. Consequently, the higher price per acre partly reflected general economic conditions. The table also shows that all the sales were in auction form, which is why the prices per acre are called minimum prices.

The key questions to ask about public land law in 1785 for the purposes of the discussion are:

1. What does the very existence of a sales program for public land imply about a desire to keep such land in government hands?
2. What does a minimum purchase requirement in terms of acres and payment in terms of cash imply about any desire to promote rapid settlement?
3. What do the above-mentioned minimum requirements imply about any desire to raise revenue?

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Handout 5-3

THE EASTERN SEABOARD: NO LONGER A PLACE FOR ENTERPRISING YOUNG PEOPLE

The rate of population growth was enormous in all parts of the country. . . . As late as 1800 the annual birthrate was still more than 50 for every thousand people, and it was not at all extraordinary for a family to have seven or eight children. In Connecticut, the source of many of the migrants to Northwestern New England in the late eighteenth century, more than one man could boast of a dozen children, some seventy grandchildren, and two or three hundred great grandchildren. The population doubled every quarter century or less. . . .

. . . Although there were graybeards who had spent their lives moving from frontier to new frontier, making a career of clearing and selling land, most of the migrants were the overly numerous sons and daughters of the latest pioneer generation. Three-fourths of those who went west from Vermont in the 1820s . . . were under thirty, and half were under twenty-five. During the first generation of settlement in one farming county of Wisconsin, between 1850 and 1880, the median age of the *working* population was twenty-nine at the start of the period and still only thirty-three at its close. The streams of migration across the country swelled into self-generating torrents as they rolled westward. As decade by decade the movement gathered strength and each generation of youthful settlers had to remove farther from their parents' neighborhood than the parents had done before, they grew more and more inured to the rigors of pioneering.

It was not the absolute numbers of young people crowding the soil so much as the wasteful agricultural practices, long since habitual among American farmers, that impelled so many to leave places that had been new in their own recent childhood. . . . The remedies proposed were [use of] fertilizer, diversification of crops, and more careful cultivation, all of which were beyond the means or the prejudices of ordinary farmers. Many of the latter instead sold out to large planters [and], after 1840, to Northern farmers who [had] sufficient capital for such innovations. In the West they could start the cycle of soil destruction over again. "Ask those who have gone, or are going West, why they have left, or intend to leave their native hills," the editor of an agricultural journal observed in 1835, "and they will tell you the soil is worn out."

. . . No region was immune to soil exhaustion. In northern New England, where ten to twenty successive crops of wheat impoverished the thin forest mold on the granite slopes, the profitable course for the richer farmers in the 1820s was to buy up worn-out wheatland and turn to raising sheep for their wool; those who sold out moved west if they could. Other means of subsistence were also being pinched off: the wild game had been depleted, the marketable timber near the rivers had been cut off, and . . . [because] deforestation made the streams no longer flow evenly throughout the year, the gristmills and sawmills were put out of business. Little room remained for enterprising young men [unless they went to New England's bustling cities].

Questions

a. What was the major economic incentive for individuals and families to migrate west?
b. To what extent do you think people like those described in the reading were able to acquire land under the terms offered by the national government prior to 1820?
   (1) What was the minimum amount of money needed to buy federal land in 1785? 1796? 1800? 1819?
   (2) Can we assume that land was always available at the minimum price? Why or why not?
c. Aside from the cost of the land, can you think of other factors that may have prevented many of the landless poor from migrating to the West?
d. Which group gained the greatest economic benefit from the arrangements made for the selling of federal lands—poor farmers or wealthy planters? What evidence is there to support your answer?
e. What changes were needed in the government's land policy to induce a large number of people to relocate in the West?

From Rowland Berthoff, *An Unsettled People: Social Order and Disorder in American History* (New York: Harper & Row, 1971), pp. 136-138. Reprinted by permission of the author.

Handout 5-4

PUBLIC LAND LAWS, 1820-62

Year	Allocation Process	Minimum Purchase	Minimum Price per Acre	Method of Payment
1820	Auction	80 acres	$1.25	Cash
1832	Auction	40 acres	$1.25	Cash
1841	Auction	40 acres	$1.25	
	Pre-emption	160 acres	$1.00 (land on market for 10 yrs.) 12½¢ (land on market for 30 yrs.)	Cash
1862	Auction	40 acres	$1.25	Cash
	Pre-emption	160 acres	$1.25	Cash
	Homestead	160 acres	free	Five years' work on land

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Handout 5-5

SETTLING WESTERN LANDS

Many of the transients' [migrants'] problems arose from the fact that the western public lands open to new settlement were still technically under control of the Federal government of the new United States, with its headquarters on the far-off eastern seaboard. Though continually changing, Federal law offered arrangements which, at least from a great distance, seemed to have the virtues of neatness and order.

. . . Federal law, the Land Ordinance of 1785, provided for the rectangular survey of lands into "township" units (each 6 miles square, each including 36 sections) and "section" units (each a mile square, or 640 acres). This has remained characteristic of our West. The simplest, most orderly, and most quickly remunerative program was to sell these large tracts to easterners with strong financial backing. . . .

But the transients were not interested in large programs. They stopped here or there, according to the accidents of the wagon route, the appeal of rumor, or the appearance of the land. They did not wait for the land to be surveyed or for government to precede them. They could not have secured the legal documents for their tracts before they left because, more often than not, they did not know where they were going. Nor did they stay put. They went hoping for the best, and their hopes carried them from place to place. However neat and orderly might be the Federal plans and laws, the transients' pattern of settlement was anything but neat, for nearly all westward American movement in the 19th century was a Land Rush. . . .

Surveys commonly lagged behind settlement. . . . In Illinois, for example, before the end of 1828, about two-thirds of the population were "squatters"—settlers on land that still technically belonged to the United State government. This very word "squatter," in New England and in the populous eastern seaboard states, had a taint of fraud. [In New England] a squatter was a person who settled on land already legally belonging to someone else, in order to acquire title by occupancy or to profit from some technical defect in the title of the original owner. But not here. The Western "squatter" was usually the actual first settler, the pre-emptor, the man who had got there first.

. . . The earlier farm settlers organized to protect their land. Since there were no courts of law, they formed "Claim Clubs" (sometimes called "associations" or "unions"). Scores of such organizations sprang up in the areas of rapid Western settlement. For example, near Elkhorn Creek, Wisconsin, forty families had settled in a grove surrounded by land which had been surveyed into townships but not yet into sections, and therefore was technically not yet on the market. A Methodist circuit rider, passing there in 1835, reported:

> They had, in the absence of all other law, met & made a law for themselves. They have surveyed the township & ascertained that section 16, the school section, was within the grove, & they staked it off & appointed commissioners to take care of it, preserve the timber &c. so as to make it valuable as possible when the township should be regularly settled according to law. They had also meted & bounded every mans wood land, allowing each family 40 acres of timber, & as much Prairie as he pleased to take up. Timber being the great disideratim of the country, they would not allow any one man to monopolise . . . there was an understanding in the country, equivalent to a law of the land, that the settlers should sustain each other against the speculator, & no settler should bid on another's land.
>
> If a speculator should bid on a settlers farm, he was knocked down & dragged out of the [land] office, & if the striker was prosecuted & fined, the settlers paid the expense by common consent among themselves. But before a fine could be assessed, the case must come before a jury, which of course must be selected from among the settlers. And it was understood that no jury would find a verdict of guilty against a settler, in such a case, because it was considered a case of self defence. . . . These things being understood no speculator dare bid on a settler's land, & as no settler would bid on his neighbor, each man gets his land at congress price, $1.25 pr. acre.

From Daniel J. Boorstin, *The Americans: The National Experience* (New York: Vintage Books, 1965), pp. 72-78, 90-97.

Handout 5-5 (continued)

. . . "Claim Clubs" were needed constantly and from the very beginning. Without the clubs, newly-settled farmers on land not yet officially surveyed could have no assurance that the land was theirs, that they could profit from their improvements, or even that they could reap the crops they had sown. Such clubs sprang up "as readily as did the sunflowers" (we are told) "wherever the prairie sod was broken"—in Illinois, Wisconsin, Iowa, Minnesota, Nebraska, and everywhere the transients settled. Organization often began with a mass meeting of the local settlers, who formed a committee to draft a constitution and by-laws and then elected officers. . . . They kept a register of land titles and in many ways acted like a regular United States government land office.

Membership in the clubs, as in other transient communities, was easily and quickly acquired. . . . A typical club constitution provided that "all persons who have resided within the limits of the county for two months shall be recognized and considered as citizens of the County." Despite the troublesome vagueness of boundaries, the crudity of surveys, and the fluidity of membership, rules were simple, widely understood, and rigorously enforced. . . .

By the time federal land offices finally were opened under the Preemption Act of September 4, 1841, enterprising transients and speculators had become devilishly clever at satisfying the letter of the law.

Under the rules of most federal land offices, a man could not pre-empt unless he had a house at least twelve feet square. But a squatter might swear that his house was "twelve by fourteen," when actually the only building on his claim—one he had whittled out with a pen-knife—was twelve by fourteen inches. To be a "house" for pre-emption purposes, a structure was required by some offices to have a glass window. Travelers reported their puzzlement at finding, in some little windowless slab cabin, a window-sash hanging inside upon a nail. Having seen similar frames hanging in other cabins, one visitor asked the owner what it was for. "To pre-empt with," came the reply. "How?" "Why, don't you understand? To enable my witness to swear that there is a window in my house!"

Sometimes the same cabin was moved from claim to claim, until half a dozen different claimants had pre-empted their separate parcels with it. A reporter in Nebraska in the late 1850's described a little frame house built for this purpose on wheels, and drawn by oxen. Let out at five dollars a day, it enabled a pre-emptor to swear that he had a bona fide residence on his claim. It was said that scores of claims had been proved up and pre-empted with this house.

No woman could pre-empt under the law unless she was a widow or "head of a family." Ambitious pioneer maidens who could not satisfy the spirit of the law were clever at satisfying its letter in order to secure their 160 acres of pre-emption land. Stories were told of babies hired out to serve such female claimants, much as the movable house served the men. The young lady would borrow a child, sign papers of adoption, swear she was head of a family, and pre-empt her claim. Afterwards she would annul the adoption papers, returning the child to its parents with an appropriate gift. . . .

Claim Clubs (sometimes called "Actual Settlers' Associations" or "Squatters' Clubs") might more precisely have been called "First Arrival Clubs." They protected the first settlers in their right to speculate as well as in their right to cultivate. The *non*resident who had made much money speculating in western land was, according to the Madison *Argus* (October 22, 1850), "a rare bird, more rare by far than a successful gold hunter." Unimproved absentee-owned land was exploited directly and indirectly. Sometimes it was simply seized, and the title held "by Claim Club." Sometimes the residents voted expensive local improvements, such as roads and schoolhouses, affixing their heavy costs as a tax burden on the lands held by absentees. In some places this became an avowed policy, in order to force sale by speculating absentee owners to actual residents (or at least to local speculators). There was no lack of speculators in western farm land, but the speculators who had the support of Claim Clubs were the men on the spot.

Claim Clubs and their Claim-Club Law expressed a distinctive spirit, an enduring legacy to the new nation. They stood for the *priority* principle, which simply meant the superior claim of those who arrived first. . . . The priority principle itself made men hurry on.

It was first applied in the laws of land, but it would be applied in turn in each race for the continental treasures: for gold, for water, for grass, and for oil.

. . . In settled European and eastern seaboard communities, inherited possessions (like an inherited name) distinguished a man by advantages he had not himself earned. Land was by far the most

Handout 5-5 (concluded)

important of these. . . . [I]n new-settled transient communities, land, stripped of ancestral associations had become a mere commodity. Its value was its price, and its price fluctuated with the market. "Settle and sell, settle and sell" was common Western doctrine. . . .

We are misled if we think of a westward-moving line of settlements advancing like the front ranks of an army, or even if we think of the whole expansive adventure of the 19th century as a "Westward" movement. These were not men moving ever *toward* the west, but men ever moving *in* the west. . . .

Transient communities . . . moved about for many reasons—and sometimes apparently for no reasons; prodded by dullness of opportunity where they were, false guesses, exhausted mines, misplaced optimisms, drought, Indian attack, fire, railroad tracks that never arrived, or restlessness and exaggerated hopes. . . .

In America, and especially in the West, men expected more than a bare living and, when their struggle became too hard or their hopes were stultified, they were ready to look elsewhere. . . .

Could the transients themselves have made a living if they had stayed on in the exhausted mining camp, the drought-stricken farm, the lumber town forgotten by the railroad? Looking at people on other continents, we cannot confidently say that they could not have survived. But survival would not satisfy them; they aimed at prosperity. It was enough to make them move if they saw they were not likely to prosper.

Questions

a. Would the actions taken by western settlers through the claim clubs support this statement: "A major motivating force behind economic behavior is individual self-interest." Explain.
b. After reading Boorstin's description of how settlers acquired land, do you think the major purpose of the Land Act of 1841 was to provide an incentive for more people to migrate west or to protect the interests of those who had already settled in the West? Explain.
c. With settlers able to legally "pre-empt" land beginning in 1841, why do you think the federal government thought it necessary in 1862 to offer the additional incentive of "free land"?

Lesson 6: Interregional Trade

TIME REQUIRED: One or two class periods

RECOMMENDED GRADE LEVEL: 9–12

MAJOR CONCEPT: Comparative advantage

RELATED CONCEPTS: Specialization
Interdependence

Instructional Objectives: Students will

- Discuss the motivation for trade between two regions;
- Explain trade between two regions in terms of the law of comparative advantage;
- Explain the importance of transportation combined with the workings of comparative advantage on the industrial growth of the United States.

Rationale: Region A can be more efficient in the production of all goods (for example, food, steel, clothing, machinery) than Region B. Region A is then said to have an *absolute* advantage in the production of all goods. But Region A is likely to be *relatively more efficient* than Region B in the production of some goods than in others. Let us assume it is relatively more efficient in producing food and steel than in making clothing and machinery. Region A is then said to have a *comparative* advantage in producing food and steel. If one thinks about it, one can see that Region B can be considered *relatively less inefficient* in producing clothing and machinery. Therefore B has a comparative advantage in producing those two goods. Under such conditions, the two regions will trade with each other, as the numerical exercises for the students show.

Comparative advantage helps explain why regions (and countries) engage in trade by using their existing resources of land, labor, and capital to specialize in certain kinds of production. Specialization and trade results in better utilization of resources, lower costs and prices, and interdependence among regions and nations. For students to understand the impact of such a process on the development and growth of the United States, a thorough understanding of the principle of comparative advantage and its implications is needed.

Materials: One copy each of handouts 6-1 and 6-2 for every student.

Procedure:

1. Distribute Handout 6-1. Allow sufficient time for reading; then have students discuss the following questions:
   a. How many hours did it take each of the families to produce one bushel of corn and a yard of cloth before specialization?
   b. In what way could each family benefit from specialization?
   c. What is a result of choosing specialization?

Write responses on the chalkboard as suggested below.

BEFORE SPECIALIZATION

Hatfields		McCoys
8 hrs.	1 bushel corn	12 hrs.
9 hrs.	1 yard cloth	10 hrs.
17 hrs.	1 bushel corn 1 yard cloth	22 hrs.

NOTE: The Hatfields can produce both corn and cloth more efficiently than the McCoys. This means that the Hatfields have an *absolute advantage* in the production of both products. But when matching their respective costs of producing corn and cloth, we find that the Hatfields are relatively more efficient in growing corn than in weaving cloth. In other words, the Hatfields have a *comparative advantage* in the production of corn.

AFTER SPECIALIZATION

Hatfields		McCoys
16 hrs.	2 bushels corn	–
–	2 yards cloth	20 hrs.
16 hrs.	2 bushels corn 2 yards cloth	20 hrs.

One bushel of corn and one yard of cloth become available to each at a lower cost in hours of work if they engage in trade or barter. If the families choose to work as many hours as before they will produce *more* corn and cloth than by working the same number of hours before specialization. In choosing to specialize, the families become less self-sufficient (more interdependent).

2. Distribute Handout 6-2. Allow time for reading. Help students set up a model similar to that below to represent production in the South and Northeast before specialization and trade:

South	
1 person-year	4 bales cotton
1 person-year	2,000 bushels corn
2 person-years	4 bales cotton 2,000 bushels corn

Midwest	
1 person-year	1 bale cotton
1 person-year	1,000 bushels corn
2 person-years	1 bale cotton 1,000 bushels corn

3. **Questions for discussion based on the reading:**
   a. What is the commodity for which the South has the greatest absolute advantage relative to the Midwest? (Cotton. The South can produce

four times as much cotton per person-year as the Midwest but only twice as much corn.)

b. Assume that the South and Midwest specialize in production, with each region having the capability of devoting two person-years to the output of either corn or cotton. Which crop would each region specialize in? How much would each produce? (South: cotton—8 bales; Midwest: corn—2,000 bushels.)

c. After specialization and with trade, what would be the limits of trade for each region, i.e., the number of bales of cotton the South could afford to trade for 1,000 bushels of corn? (Up to four bales; it needs four bales for its own use.) And the number of bushels of corn the Midwest would afford to trade for four bales of cotton. (Up to 1,000 bushels; it needs 1,000 bushels for its own use.)

d. Would each region be better off as a result of specialization and trade? (Yes. In exploiting their comparative advantage in the availability of goods each region would experience real gains. Stress that the principle of comparative advantage underlies the existence of much *international* as well as *interregional* trade. However, during any adjustment period in which production patterns are being altered to benefit from the comparative advantages of given regions or countries, investors or workers in industries whose output is being de-emphasized may undergo hardships.)

e. As other groups see opportunities for interregional trade, what political pressures would you expect to develop? What investment opportunities might be created? (The opportunities for interregional trade in the United States were highly dependent on a transportation system. As the desire for interregional trade increased, so did pressures on local, state, and national governments to foster means of transportation. These governments built some roads and canals directly and also helped finance private builders of them. Governments also provided many sorts of incentives to induce private investors to build railroads and highways.)

4. Have students find maps, in their textbooks or a historical atlas, showing the canal, road, and railway systems in the United States during the 1840s and 1850s. Discuss the following:
   a. What pattern of interregional trade appears to be developing? (The maps should reveal the growing links between the Northeast and West. You may wish to have students make a list of the types of goods exchanged between the two regions.)
   b. What do you think are the consequences of regional specialization? (The results would include the decline of agricultural self-sufficiency, the expansion of the money economy, the development of banking, economies of scale, new agricultural and industrial technology.)

Evaluation:

1. Ask students to use their textbook or other sources to find an example of interregional trade in which at least one region produces manufactured goods. Have them explain this trade in terms of the law of comparative advantage.
2. Ask students to use their textbook or current periodicals to describe a situation in international trade to which the law of comparative advantage applies. They should describe the benefits gained by each country and state any problems that trade may give rise to.

Handout 6-1

THE HATFIELDS AND THE McCOYS*

The Hatfields and the McCoys don't talk to each other much. They would rather shoot than smile. The Hatfields are better off than the McCoys in every way. Why, it takes only 8 hours for one Hatfield to grow one bushel of corn (for bread or whiskey) and only 9 hours for one Hatfield to make one yard of cloth.

The McCoys aren't any more (or less) shiftless than the Hatfields, but their land is worse and their tools aren't so good. Anyway, it takes 12 hours for one McCoy to grow one bushel of corn and 10 hours for one McCoy to make one yard of cloth. The McCoys are worse off than the Hatfields because they have to work longer for everything they have.

Now old Ma Hatfield is a sly one, and she's been sitting and rocking and thinking for years and years. One day she says, "Paw! Paw, I've been cogitatin'. You know what I think? I think we'd be a whole lot better off if we stopped fighting the McCoys, spent more of our time raising corn, and traded with the McCoys when we needed cloth."

Paw spat.

"Damnit, woman," he said. "We are better farmers than those varmints, and better weavers, too! Besides, I don't want to be dependent on that poor white trash for my clothes."

Was Ma right?

Suppose it would pay the Hatfields to trade corn for cloth. Would it pay the McCoys to trade cloth for corn?

Was Paw right?

Questions:

a. How many hours did it take each of the families to produce one bushel of corn and a yard of cloth before specialization?
b. In what way could both families benefit from specialization?
c. What is a result of choosing specialization?

*Hugh Lovell and Charlotte Harter, *An Economics Course for Elementary School Teachers* (New York: Joint Council on Economic Education, 1975), p. 19.

Handout 6-2

REGIONAL SPECIALIZATION BEFORE THE CIVIL WAR

In those years [before the Civil War], the pattern of regional specialization in agriculture was undergoing marked change, as methods of transportation improved and new markets opened up. The corn, hog, and wheat belts, for example, were moving west. While corn was widely grown in the nation, by 1859 the supremacy in the production of this grain was held by Illinois, Ohio, and Missouri, in that order. The corn belt is traditionally the center of hog production so . . . we are not surprised to see that in that same year, Indiana and Illinois were the leading producers of pigs.

Wheat production was undergoing a marked transformation in these years also, so far as its regional location was concerned. Wheat has always been a frontier crop *par excellence* because it is less perishable than corn and its higher value, compared to its weight and volume, and easy transportability make it ideal for remote, frontier regions. For these reasons, among others, the farmers who pushed into the upper Mississippi Valley were quick to take up its production. And so, though in 1849 Pennsylvania, Ohio, and New York were the leading states in the production of wheat, by 1859 Illinois, Indiana, and Wisconsin were first.

The pattern of regional specialization in agriculture was clearly discernible in other fields as well. In dairy products, New York was the leader, as of 1859, producing nearly half the nation's output of cheese and one-quarter of its butter. In sheep-raising between 1830 [and] 1840, Ohio was the leading center; after 1850, sheep-raising moved still farther west.

This regional specialization in agriculture grew out of the desire of farmers to grow the products upon which they could make the largest profit, and it has been traditionally explained in terms of the principle of COMPARATIVE ADVANTAGE. The mechanism that leads sections to specialize in order to gain the benefits of interregional trade would work the following way. Let us consider the interregional trade between the South and the Midwest in two commodities: corn and cotton. If we assume that it takes one worker one man-year of labor to produce 4 bales of cotton or 2,000 bushels of corn in the South, whereas in the Midwest one man-year of labor might produce one bale of cotton or 1,000 bushels of corn, we can see that the farmers in the South can clearly produce more cotton and corn than workers in the Midwest. The South has an ABSOLUTE . . . advantage in the production of both commodities. But whereas workers in the South can produce four times as much cotton as the Midwest, they can produce only twice as much corn. By using all its labor resources in the production of cotton and employing the labor of the man-year now released from the production of corn, the South might now [produce eight bales of cotton]. . . . The Midwest would produce 2,000 bushels of corn. . . . Both regions would . . . gain by concentrating on the production of goods in which they had the greatest comparative advantage [and by engaging in the trade of these goods].

Whereas the model is valid under certain conditions, we are not suggesting that all these conditions existed in the United States during this period. Specialization was beneficial in agriculture because of the reason cited in the above example together with others that are more complex than this model indicates. Specialization in other areas did not take place when some of these complex conditions were not present. In general this model offers one explanation for the development of regional specialization and a national market in the United States. As an example of the type of complexity that hindered the development of specialization, large parts of the Middle West in those years remained self-sufficient in agriculture and other industries because of the lack of good interregional transportation.

The examples used in this reading were taken from Charles Hession and Hyman Sardy, *Ascent to Affluence* (Boston: Allyn & Bacon, 1969), pp. 213-233, as quoted, with changes, by William Murphy, *Strategies and Materials for Topic III, American Economic Life* (Geneseo, N.Y.: Published by the Genesee Region Council on Economic Education for the New York State Department of Education, 1971), p. 39. The material is reprinted by permission of Allyn & Bacon.

Handout 6-2 (concluded)

Questions

a. What is the commodity for which the South has the greatest absolute advantage relative to the Midwest?
b. Assume that the South and Midwest specialize in production, with each region having the capability of devoting two man-years to the output of either corn or cotton. Which crop would each region specialize in? How much would each produce?
c. After specialization and with trade, what would be the limits of trade for each region, i.e., the number of bales of cotton the South could afford to trade for 1,000 bushels of corn, and the number of bushels of corn the Midwest would afford to trade for four bales of cotton?
d. Would each region be better off as a result of specialization and trade?
e. As other groups see opportunities for interregional trade, what political pressures would you expect to develop? What investment opportunities might be created?

Lesson 7: Labor Markets

TIME REQUIRED: Approximately three class periods (more if reading assignments are completed in class)

RECOMMENDED GRADE LEVEL: 11–12

CONCEPTS: Labor markets: imperfections
Supply and demand

RELATED CONCEPTS: Economic institutions: labor unions
Measurement: median, ratio

Instructional Objectives: Students will

- Describe the life of an average laborer in the United States in the late 1800s;
- State the costs and benefits of various options available to workers in the late 1800s that would have improved their working conditions;
- Describe the changes resulting from the growth of United States labor unions and the long-term effects of these changes on the economy;
- Name the principle influences of labor unions on labor markets.

Rationale: Labor, one of the factors of production, contributed to the rapid economic expansion of the late 1800s. Immigration provided a large labor pool from which growing industries could draw and also helped to keep wages down. although many immigrants improved their situations by migrating. In addition, poor working conditions, such as lack of adequate safety standards, abuse of child labor, and long hours, existed in many industries.

During the late 1800s, many workers became dissatisfied with their conditions of work and with their wages. And as a result of the increased size of enterprises, individual employees could no longer bargain very effectively with their employers. In these circumstances, working people began to form associations or unions in order to improve their wages and working conditions. Workers had begun to form labor organizations around 1800, e.g., shoemakers, printers, carpenters, and shipbuilders; but these organizations were limited to members of single crafts in individual cities. It was not until the later decades of the nineteenth century that nationwide groupings emerged. The Knights of Labor, the International Workers of the World—both now defunct—and the American Federation of Labor—now the AFL-CIO—were the most important early national union organizations. Employers at that time believed that their "property rights" included the right to run their factories as they saw fit and that the free market should determine wages. Many workers, however, believed that the market did not operate as "freely" as it was supposed to because large, powerful employers could dictate to "powerless" individual employees.

By studying the origins of the labor union, students will realize that unions occupy a central position in the U.S. economic system. Many of them will one day be making decisions involving labor unions, either as members or potential members of unions or as owners or representatives of an employer.

Materials: Enough copies of handouts 7-1 and 7-2 for each member of the corresponding group (see Procedure 1); one copy each of handouts 7-3 and 7-4 for every student.

Procedure:

1. Divide the class into two groups and distribute handouts as follows: members of Group I receive Handout 7-1; Group II, Handout 7-2. Give Handout 7-3 to all students as background. Have students read handouts (and relevant material in texts, if advisable) as a home assignment and complete individual responses to the questions provided at the end of the handout. Then in class have groups discuss their answers. Or allow time for students to read the handouts in class and then have them propose answers in group discussion.
2. After groups have completed the assigned task, ask a spokesperson for each group to share its findings on the first four questions with the entire class. Ask students to withhold their answers to questions 5 and 6 until later along in the lesson (Procedure 3).
3. As a home assignment or in class, have students read the section in their history textbook on the rise of organized labor and review the pros and cons of union membership. Then, in class, ask students to orally report their personal responses to questions 5 and 6 on handouts 7-1, 7-2, and 7-3, which were completed previously. After each student has had an opportunity to respond, have the class develop a cost-benefit chart by responding to the following question: What were the costs and benefits of joining a union in the late nineteenth century? Write student responses on the chalkboard.

EXAMPLE:

Costs	Benefits
Possible loss of job	Higher wages
Higher prices of products	Collective security
Marginal companies may be forced out	Greater bargaining power
	More market control

Evaluation: Distribute Handout 7-4. Make sure students understand the terms "average" (arithmetic mean) and "ratio" and the meaning of the figures given in the first three columns on the table before they answer the questions.

1. Have students complete the worksheet by first rearranging the occupational categories in or-

der of the ratios in column 3 of the table—i.e., from highest to lowest ratio. They should then transfer the rest of the data in the table to the worksheet in this rearranged order. The completed worksheet is shown on page 50.

2. Questions for class discussion:
   a. In what two occupational categories are the average earnings ratios highest? (Service and operatives.) Why? (Widespread union organization in service industries has been comparatively recent. Therefore, relatively large initial gains in wages have been made by unionized service workers compared to nonunionized ones. Operatives include workers in manufacturing, which has long been heavily unionized and also has many large companies in a position to pay relatively high wages.)
   b. In which occupational group are unrestricted market forces of supply and demand most likely to determine wages? Why? (Managers and administrators; professional, technical and kindred; sales workers. As the data suggest, workers in these categories are less likely to be organized into unions.)
   c. What occupational group has the lowest average earnings? (Service workers.) Why? (Some important categories of service workers have marginal skills or are subject to ethnic or racial discrimination.)
   d. From the data, what can you conclude is a possible relationship between unionization and wage levels? (It appears that union market power—i.e., command over labor supply—tends to result in higher wage levels for union workers than nonunion in a given occupational category.)
   e. Using the 1976 data given and your review of labor history in the 1890s describe the changes that have occurred in union membership between the 1890s and 1976? (Some occupational categories became very highly organized. Average earnings rose significantly—though by different degrees, often influenced by the amount of unionization—over the period for all workers.)
3. For extra credit: Have students seek out statistics on labor union membership over the years and then write a short paper explaining the changes that have occurred in the past twenty-five years.

COMPLETED WORKSHEET FOR HANDOUT 7-4

	Average Weekly Earnings				
	(1)	(2)	(3)	(4)	(5)
Occupational Category	Union Workers	Non-union Workers	Ratio: Col. 1 / Col. 2	No. of Workers (thous.)	% of Col. 4 Who Are Union Members
Service workers	$212	$135	1.57	5,670	27.2
Operatives	243	167	1.46	10,180	46.9
Clerical and kindred workers	232	172	1.35	10,240	21.3
Craft and kindred workers	307	235	1.31	8,248	48.4
Managers and administrators	342	328	1.04	5,673	11.8
Professional, technical, and kindred	293	303	0.97	8,687	29.6
Sales workers	242	250	0.97	2,580	5.3

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Handout 7-1

SENATE INVESTIGATION OF THE RELATIONS BETWEEN LABOR AND CAPITAL

Aroused at the outbreak of a number of strikes in the early 1880s, the U.S. Senate Committee on Education and Labor undertook an investigation of the relations between labor and capital. The committee held hearings all over the United States to gather testimony from workers, manufacturers, and interested citizens. The following testimony was taken in Fall River, Massachusetts, in 1883. The first witness was Thomas O'Donnell, a native of England, who had worked in the textile mills of Fall River for eleven years. U.S. Senator Henry W. Blair of New Hampshire begins the questioning:

BLAIR: Mr. O'Donnell, Are you a married man?

O'DONNELL: Yes, sir; I am a married man; have a wife and two children. I am not very well educated. I went to work when I was young, and have been working ever since in the cotton business; went to work when I was about eight or nine years old. My children get along very well in summertime, on account of not having to buy fuel or shoes or one thing and another. I earn $1.50 a day and can't afford to pay a very big house rent. I pay $1.50 a week for rent, which comes to about $6.00 a month.

BLAIR: That is, you pay this where you are at Fall River?

O'DONNELL: Yes, sir.

BLAIR: Do you have work right along?

O'DONNELL: No, sir; since that strike we had down in Fall River about three years ago I have not worked much more than half the time, and that has brought my circumstances down very much.

BLAIR: Why have you not worked more than half the time since then?

O'DONNELL: Well, at Fall River if a man has not got a boy to act as "back boy" it is very hard for him to get along. In a great many cases they discharge men in that work and put in men who have boys.

BLAIR: Men who have boys of their own?

O'DONNELL: Men who have boys of their own capable enough to work in a mill, to earn $.30 or $.40 a day.

BLAIR: How much have you had within a year?

O'DONNELL: Since Thanksgiving I happened to get work in the Crescent Mill, and worked there exactly thirteen weeks. I got just $1.50 a day, with the exception of a few days that I lost—because in following up mule-spinning you are obliged to lose a day once in a while; you can't follow it up regularly.

BLAIR: Thirteen weeks would be seventy-eight days, and, at $1.50 a day, that would make $117, less whatever time you lost?

O'DONNELL: Yes. I worked thirteen weeks there and ten days in another place, and then there was a dollar I got this week, Wednesday.

BLAIR: Taking a full year back can you tell how much you have had?

O'DONNELL: That would be about fifteen weeks' work. . . .

BLAIR: That would be somewhere about $133, if you had not lost any time?

O'DONNELL: Yes, sir.

Transcript of hearings before the U.S. Senate Education and Labor Committee during its investigation of the relations between labor and capital in Fall River, Massachusetts, 1883; as quoted in the Teacher's Guide for *A New History of the United States: An Inquiry Approach*, edited by Edwin Fenton (New York: Holt, Rinehart and Winston, 1969), pp 314-321.

Handout 7-1 (continued)

BLAIR: That is all you have had?

O'DONNELL: Yes, sir.

BLAIR: To support yourself and wife and two children?

O'DONNELL: Yes, sir.

BLAIR: Have you had any help from the outside?

O'DONNELL: No, sir.

BLAIR: Do you mean that yourself and wife and two children have had nothing but that for all this time?

O'DONNELL: That is all. I got a couple of dollars' worth of coal last winter, and the wood I picked up myself. I goes around with a shovel and picks up clams and wood.

BLAIR: What do you do with the clams?

O'DONNELL: We eat them. I don't get them to sell, but just to eat, for the family. That is the way my brother lives, too, mostly. He lives close by us.

BLAIR: How many live that way down there?

O'DONNELL: I suppose there are one thousand down there.

BLAIR: A thousand that live on $150 a year?

O'DONNELL: They live on less.

BLAIR: Less than that?

O'DONNELL: Yes; they live on less than I do.

BLAIR: How long has that been so?

O'DONNELL: Mostly so since I have been married.

BLAIR: How long is that?

O'DONNELL: Six years this month.

BLAIR: Why do you not go West on a farm?

O'DONNELL: How could I go, walk it?

BLAIR: Well, I want to know why you do not go out West on a $2000 farm, or take up a homestead and break it and work it up, and then have it for yourself and family?

O'DONNELL: I can't see how I could get out West. I have got nothing to go with.

BLAIR: It would not cost you over $1500.

O'DONNELL: Well, I never saw over a $20 bill, and that is when I have been getting a month's pay at once. If someone would give me $1500 I will go. . . .

BLAIR: You spoke of fuel—what do you have for fuel?

O'DONNELL: Wood and coal.

BLAIR: Where does the wood come from?

O'DONNELL: I pick it up around the shore—any old pieces I see around that are not good for anything. There are many more that do the same thing.

BLAIR: Do you get meat to live on much?

O'DONNELL: Very seldom.

BLAIR: What kinds of meat do you get for your family?

O'DONNELL: Well, once in a while we get a piece of pork and some clams and make a clam chowder. That makes a very good meal. We sometimes get a piece of corn beef or something like that. . . .

BLAIR: What have you eaten?

O'DONNELL: Well, bread mostly, when you could get it; we sometimes couldn't make out to get that, and have had to go without a meal.

BLAIR: Has there been any day in the year that you have had to go without anything to eat?

O'DONNELL: Yes, sir, several days.

BLAIR: More than one day at a time?

O'DONNELL: No. . . .

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Handout 7-1 (continued)

BLAIR: What have the children got in the way of clothing?

O'DONNELL: They have got along very nicely all summer, but now they are beginning to feel quite sickly. One has one shoe on, a very poor one, and a slipper, that was picked up somewhere. The other has two odd shoes on, with the heel out. He has got cold and is sickly now.

BLAIR: Have they any stockings?

O'DONNELL: He had got stockings, but his feet comes through them, for there is a hole in the bottom of the shoe.

BLAIR: What have they got on the rest of their person?

O'DONNELL: Well, they have a little calico shirt—what should be a shirt; it is sewed up in some shape—and one little petticoat, and a kind of little dress.

BLAIR: How many dresses has your wife got?

O'DONNELL: She has got one since she was married, and she hasn't worn that more than half a dozen times; she has worn it just going to church and coming back. She is very good in going to church, but when she comes back she takes it off, and it is pretty near as good now as when she bought it.

BLAIR: She keeps that dress to go to church in?

O'DONNELL: Yes, sir.

BLAIR: How many dresses aside from that has she?

O'DONNELL: Well, she got one here three months ago.

BLAIR: What did it cost?

O'DONNELL: It cost $1.00 to make it and I guess about a dollar for the stuff, as near as I can tell.

BLAIR: The dress cost $2.00?

O'DONNELL: Yes.

BLAIR: What else has she?

O'DONNELL: Well, she has an undershirt that she got given to her, and she has an old wrapper, which is about a mile too big for her; somebody gave it to her.

BLAIR: She did not buy it?

O'DONNELL: No. That is all that I know that she has. . . .

BLAIR: Is there anything else you wanted to say?

O'DONNELL: Nothing further, except that I would like some remedy to be got to help us poor people down there in some way. Excepting the government decides to do something with us we have a poor show. We are all, or mostly all, in good health; that is, as far as the men who are at work go.

BLAIR: You do not know anything but mule-spinning, I suppose?

O'DONNELL: That is what I have been doing, but I sometimes do something with pick and shovel. I have worked for a man at that, because I am so put on. I am looking for work in a mill. The way they do there is this: There are about twelve or thirteen men that go into a mill every morning, and they have to stand their chance, looking for work. The man who has a boy with him he stands the best chance, and then, if it is my turn or a neighbor's turn who has no boy, if another man comes in who has a boy he is taken right in, and we are left out. I said to the boss once it was my turn to go in, and now you have taken on that man; what am I to do; I have got two little boys at home, one of them three and a half and the other one year and a half old, and how am I to find something for them to eat; I can't get my turn when I come here. He said he could not do anything for me. I says, "Have I got to starve; ain't I to have any work?" They are forcing these young boys into the mills that should not be in mills at all. They are

Handout 7-1 (continued)

doing everything of that kind that they possibly can to crush down the poor people—the poor operatives there.

NARRATOR: The next witness is Mr. Robert S. Howard. Mr Howard was born in England. He has been secretary of the local textile workers' Union and a member of the Massachusetts legislature.

HOWARD: Senators, there is one remarkable thing in Massachusetts, and that is that if ever a bill is brought before our legislature for the redress of some grievance which may exist, you will always see the corporation detectives there, particularly from Lowell and from Lawrence. Lowell wishes itself to be looked upon as the workingman's Paradise of Massachusetts, but it is the worst place in Massachusetts, and pays the lowest prices to its workingmen. The Lowell manufacturers always have a ring of men down at the State House, and they always wish to make it appear that their city is a Paradise and an Eden. There are men there running 1500 spindles for about $9.50 a week, while in the other New England mills they can get $12.00 a week. They have a man named Moses Sargent who is there at the State House every week, and I used to see him watching every man that came in; so that a Lowell man that had to earn his bread in the mills dare not put his head into the committee room. The same is true in Lawrence. They had a detective named Filbrook always watching to see if any Lawrence men came before the committee to give testimony. I have been told that Filbrook gets a salary of $6000 a year from the Pacific Mills alone.

BLAIR. In regard to the actual physical condition of the operatives in Fall River and elsewhere, can you give us any information?

HOWARD: The work there is very hard and the wages are very low—low in proportion to what they used to be some ten years ago, before the financial depression set in. Our females in particular are overworked; their strength is entirely overtaxed by the labors they have to perform. There is another thing that needs rectifying in Massachusetts, and that is the blacklisting system—the system of blacklisting men who have the courage to speak their opinions. In Lowell some two years ago I went to start the men to ask for more wages, because we in Fall River could not do anything until Lowell made some advance. I went down there and we had a petition drawn up. No name was signed to it, because all of the men were afraid, but the petition was sent in asking for an advance in wages. In about two weeks after that petition was presented to the Lowell manufacturers the three men that had the drawing up of the petition were discharged from the mills. That is a fact. One of those three men is now dead; another is tending bar, and the other we do not know where he is. The same practice exists in Lawrence. I know a man who left the Arlington Mills. They had an imported superintendent from England and he wanted to show our Americans that he could make people do anything he pleased, and he sent down to one of our mills to have the man blacklisted, and that man is now working in the city under an assumed name. I may say also in the same connection, that in my own city we had thirty-three men discharged about two years ago for asking for an advance of wages, and they are working now under assumed names. The bosses hired a detective in our city (for they have adopted the Lowell and Lawrence system), and I am told that he goes around with his list to see if he can find those men.

BLAIR: What do you say those men were blacklisted for?

Handout 7-1 (continued)

HOWARD: Merely for having the courage enough to ask for an advance of wages when the state of the trade warranted it. . . .

NARRATOR: The final witness is Dr. Timothy D. Stow, a physician from Fall River.

BLAIR: You are a physician?

STOW: Yes.

BLAIR: You live at Fall River?

STOW: Yes.

BLAIR: Won't you state how you happen to appear before the committee, what your object is in coming here, and at whose request you come; and then give us the benefit of any observations you choose to lay before us?

STOW: Mr. Robert Howard, of our city, called on me yesterday, and desired me to appear here today before your committee to give whatever testimony I could relating particularly to the physical and mental and perhaps the moral condition of the operatives and laboring classes of Fall River. I have made no notes, and I hardly know what your plan is; but I would as soon answer as to make any detailed statement.

BLAIR: We want to find out how the working people of Fall River are living and doing. You can tell us that in the way in which one gentleman would talk to another, the one understanding the subject and the other not understanding it. Just tell us the condition of the operatives there, in your own way, bearing in mind that we would rather have it without premeditation than as a prepared statement.

STOW: I have been in Fall River about eleven years, though I have been one year absent during that time. As a physician and surgeon, of course, I have been brought into contact with all classes of people there, particularly the laboring classes, the operatives of the city.

With regard to the effect of the present industrial system upon their physical and moral welfare, I should say it was of such a character as to need mending, to say the least. It needs some radical remedy. Our laboring population is made up very largely of foreigners, men, women, and children, who have either voluntarily come to Fall River, or who have been induced to come there by the manufacturers.

As a class, they are dwarfed physically. Of course there are exceptions to that; some notable ones. On looking over their condition and weighing it as carefully as I have been able to, I have come to the conclusion that the character and quality of the labor which they have been doing in times past, and most of them from childhood up, has been and is such as to bring this condition upon them slowly and steadily.

They are dwarfed, in my estimation, sir, as the majority of men and women who are brought up in factories must be dwarfed under the present industrial system; because of their long hours of indoor labor and their hard work they are cut off from the benefit of breathing fresh air, and from the sights that surround a workman outside a mill. Being shut up all day long in the noise and in the high temperature of these mills, they become physically weak.

Then, most of them are obliged to live from hand to mouth, or, at least, they do not have sufficient food to nourish them as they need to be nourished. Those things, together with the fact that they have to limit their clothing supply—this constant

Handout 7-1 (concluded)

strain upon the operative—all tend to make him on the one hand uneasy and restless, or on the other hand to produce discouragement and recklessness. They make him careless in regard to his own condition. All those things combined tend to produce what we have in Fall River.

Now, in regard to the tenements in which they live. The defective condition of their tenements seems to be from their neglect in many cases. For instance, the Slade buildings are very badly located. The tenements were very hastily constructed, and are poorly constructed, so that the average amount of fuel which the operative has to use has to be increased—indeed, has to be nearly doubled—in order to heat these houses during the winter. The access to these houses is in many instances very bad. They are very near a swamp where the drainage is very bad; and through the summertime water and mire are steadily upon the ground within a few rods of the building. It is a noisome, disgusting place. I have noticed, on going in and out of these buildings many times, that the steps were out of repair for long periods. There were some rows of the Slade buildings where the boards of the steps were out and the children and the tenants themselves were likely to break their limbs and injure themselves seriously while going up and down those steps in the darkness of the night by falling through the loose steps. Nothing is done about it through the sheer neglect and the penuriousness of the managers of the mill. There are some corporations in Fall River that are notable exceptions in this respect, though they have not done everything that could be done, by any means. . . .

This corporation, I said, neglects the welfare of its operatives. I will give you an illustration: I have spoken of the drainage and ventilation and the bad location of the buildings. But in regard to the water we have in Fall River, it is probably as excellent water as can be found in the country, and the city has been to great expense in providing it. There is a single source of water there, and that is outdoor. The women who do the work for the families are obliged, summer and winter, to go out of the building and go up one of the streets between the buildings and take the water from a single faucet which has the caliber of seven-eights of an inch. If they have young children they leave them, of course, in the house while they go out. And quite a number of accidents have taken place in those tenements (that is, within the time the corporation has been in existence) from scaldings and burning of children on stoves and, one way and another, during the absence of their mothers in looking after these things. . . .

Questions

1. Describe the life of an average laborer in Fall River, Massachusetts, during the 1880s.
2. What market power over wages did an individual Fall River worker have?
3. What market power over wages did Fall River employers have?
4. Why do you think there were relatively few union members in the United States during the 1890s?
5. If you had been a U.S. senator in the 1880s, what kinds of action, if any, would you have suggested for the federal government to take with regard to labor unions?
6. If you had been a laborer in Fall River during the 1880s, would you have joined a labor union? Why or why not?

Handout 7-2

LIFE IN STEELWORKERS' COMMUNITIES

Shortly after 1900, a group of Pittsburgh charitable organizations realized that to work effectively they had to know more about their communities. With the support of the Russell Sage Foundation of New York, they commissioned an intensive investigation of the life of industrial workers in Pittsburgh and its suburbs. Portions of the findings follow.

Entirely apart from unionism or non-unionism are certain arrangements which may be termed employees' benefit policies. The arrangement has become general in the Carnegie mills of delivering coal to employees at cost. The company also loans money to employees for the purpose of building homes. It is an advantage to a mill-town employer to have property-owning employees. The labor force is more stable and there is less likelihood of a strike. The employees do not wish to take a chance of losing their jobs after a house has been acquired, lest they have to move.

In Homestead and Munhall the Carnegie Company owns a number of houses. It has proved itself a good landlord in comparison with some of the small owners of rented properties in these boroughs. The company charges 30 to 40 percent less for these houses than other landlords charge.

This year [1910] the United States Steel Corporation has announced two important developments in the way of a relief plan and a pension system. As long as a man remains an employee, the company will help protect his family against the dangers of industry. It will also make some provision toward his old age. A man will think twice before giving up a job which will give him a pension if he loses that pension by taking another job that pays a little more. He will be reluctant, especially as he stays for many years with a company, to risk discharge. He will not join a union if joining means discharge.

These plans illustrate the administrative and, to a degree, the human advantages which have come with consolidating the ownership of the steel industry. In the first place, inventions and changes begun in one plant may at once be introduced in many. An expert staff can be set to study difficult problems with all of the corporation's mills as their laboratory. Standards once adopted, whether of safety inspection, accident compensation, or surgical service, may be enforced by executive act so as to affect 200,000 men instead of waiting for such programs to be introduced by a hundred independent managers. Again, the private owners of the 1890's faced severe competition. But profits went wholly into their own pockets. The directors and executive officials of the Steel Corporation bear a different relation to the year's profits. Their personal incomes are not affected by starting a relief fund, for example.

The break with unionism had no direct bearing on the policies which have thus far been cited. Some of them were begun by the employers during the times of greatest union strength. But there are other conditions which have come into being that would certainly have been opposed if the men had retained their collective power.

One of these is the internal organization of the industry. In eliminating waste of all kinds and introducing mechanical changes, it has also put the entire control of the mills back into the hands of foremen and superintendents. In this way the labor force is coordinated so as to make it most easy to control and most difficult to unionize. Another is the wage policy. While advancing the wages of common labor, it has brought down the earnings of men of highest skill. Cuts in pay have accompanied increased output. The whole wage movement, unprodded by union demands, lags behind the rise in prices of family necessities.

Let us look at the situation as it is reflected in the everyday life of the men. The immediate effect of such a working schedule is on the home. Many a steelworker has said to me with grim bitterness, "Home is just the place where I eat and sleep. I live in the mills." The steelworkers are united in saying that "on the night shift you can't do anything but work, eat, and sleep anyhow." So home pleasures and social pleasures alike are entirely lacking during a full half of the time. Whatever opportunity for enjoyment of the home there may be, must come in the alternate weeks on day shift.

The wife of the steelworker, too, has a hard day,

From John A. Fitch, *The Steel Workers* (New York: Charities Publication Committee, 1910), pp. 192-194, 196, 198-204, 207, 210, 212-214, 216, 219, as quoted, with changes, in *A New History of the United States*, edited by Edwin Fenton (New York: Holt, Rinehart and Winston, Inc., 1975), pp. 438-441. The language has been simplified by Fenton.

Handout 7-2 (concluded)

and even a longer one than her husband's. To prepare a breakfast by six in the morning she must rise not later than half past five. The family cannot sit down at the supper table until seven or later. And after that the dishes must be washed. There is little time for husband and wife to have each other's company. It is only by making an extra effort that they can spend an evening out together. And the evening at home is robbed of much of its charm by prolonging the domestic duties, such as dishwashing, beyond the time that would be required if the meal were served earlier. The father, too, has little time with his children. If they are quite small, he may go for weeks without seeing them except in their cribs.

Not only is home life threatened, but other healthy influences in the mill towns feel the blighting effect of the twelve-hour day. Opportunity for mental culture would seem to be ample in the mill towns. Each has its Carnegie Library. Each has its auditorium and music hall with a fine pipe organ, where lectures and concerts of high grade are held. But the steelworkers seldom make use of these privileges. The trouble is the same as that which has already spoiled half of the home life. There is not enough energy left at the end of a twelve-hour day.

It now becomes necessary to discuss the reasons for the apparent agreement of the steelworkers to existing conditions. The obvious obstacle to collective action on their part is the fact that they are non-union. But that merely suggests the question: Why don't they organize? To understand the absence of united action and resistance to the policies of the companies one must understand the obstacles that stand in the way.

In the first place, there is the so-called profit-sharing system of the United States Steel Corporation. Beginning in 1903, the corporation has set aside shares of stock. Each employee can buy as many shares as he wishes within limits depending upon his annual salary.

The stock-issue system brings those employees who invest in stock more surely under the domination of the corporation. The bonus paid each year for five years is to go to those who have shown "a proper interest in the welfare and progress" of the corporation. The extra dividends at the end of the five-year period are awarded to those whom the corporation finds "deserving thereof." There is nothing to prevent an employee of the corporation from purchasing stock on the same basis as the outsider. But in that case he will receive only ordinary dividends. The extraordinary return received by the holder of employees' stock is based on his acquiescence as an employee.

The steel companies also employ a system of espionage, or spying. I doubt whether you could find a more suspicious body of men than the employees of the United States Steel Corporation. They are suspicious of one another, of their neighbors, and of their friends. I was repeatedly suspected of being an agent of the corporation, sent out to sound out the men's attitudes toward the corporation and toward unionism. The fact is, the steelworkers do not dare openly express their convictions. They do not dare assemble and talk over affairs pertaining to their welfare as mill men. They feel that they are living always in the presence of a hostile critic.

All of the steel companies have effective methods of learning what is going on among the workmen. The Jones and Laughlin Company has an organization that keeps it informed about the likelihood of disorder breaking out. The United States Steel Corporation has regular secret-service departments. Its agents are thought by the men to be scattered through all of the mills of the corporation. They believe that these agents work shoulder to shoulder at the rolls or furnaces with honest workmen, ready to record any "disloyal" utterances or to enter into any movement among their fellows. The workmen feel this espionage. They believe it exists, but they do not know who the traitors are. It may be that the friend of long standing who works at the next furnace is one of them, or, possibly, the next-door neighbor at home. They do not know. Is it any wonder, therefore, that they suspect each other and guard their tongues?

Questions

1. Describe the life of an average steelworker in Pittsburgh during the 1890s.
2. What market power over wages did an individual steelworker have?
3. What market power over wages did employers of steelworkers have?
4. Why do you think there were relatively few union members in the U.S. during the 1890s?
5. If you had been a U.S. senator in the 1890s, what kinds of action, if any, would you have suggested for the federal government to take with regard to labor unions? Explain.
6. If you had been a laborer in the Carnegie steel mills during the 1890s, would you have joined a union? Why or why not?

Handout 7-3

EMPLOYER SUPPORT FOR THE COLLECTIVE BARGAINING MODEL

Like labor, . . . most employer[s] . . . [were] not united in . . . [their] views on industrial government. Most employers clearly had no sympathy with ideas about industrial democracy, as indicated by the actions of both the great capitalists (e.g., the practical destruction of collective bargaining in steel by U.S. Steel in 1901 and the resistance to a signed agreement of the anthracite coal operators in 1902) and the small employers (e.g., the open-shop drive and the conversion of the National Association of Manufacturers into an anti-union organization). To put the matter in the baldest possible terms, the typical employer felt that he was entitled to run his business as he saw fit, though recognizing an obligation to be fair and humane. Whatever else he might have seen it as, he certainly did not see industry as an arena for the democratic process. . . .

Nevertheless, the democratic winds were not to be ignored. . . . [Several] categories of employers . . . attempted, in some fashion or other, to accommodate to the rising democratic spirit of the times . . .[among them]: (1) the employers who supported unionism, collective bargaining, and the trade agreement; (2) the majority of employers in the National Civic Federation [NCF], who paid lip service to collective bargaining but were mainly interested in industrial peace, welfare work, and individualism. . . .

Between 1898 and 1915 an increasing number of employers espoused the virtues of collective bargaining; it must be added, however, that the behavior of the corporations with which many of these men were associated often seemed to belie their words. Nevertheless this was a significant index of the changing times. For example, George W. Perkins, a partner in the Morgan firm and a director of numerous major corporations including U. S. Steel and International Harvester, testified before the Commission on Industrial Relations:

> I do not believe that competition is any longer the life of trade. I have long believed that cooperation is the life of trade. I believe this because it is clear that competition, driven to its logical end, gave us the sweatshop, child labor, long hours of labor, insanitary labor conditions, and bred strife and discord between employer and employee. I have long believed that cooperation by the Federal Government, is the only method of eliminating the abuses from which labor has suffered under the competitive method. I believe in cooperation and organization in industry. I believe in this for both labor and capital.

At a later point in his testimony, Perkins stated: "I believe that every man should have the right to so exercise his freedom as to render the most good to the most people. I think collective bargaining comes nearer representing that notion than individual management." But when pressed to explain why neither U.S. Steel nor Harvester dealt with organized labor, Perkins asserted: "I did not mean to say I believed in the organization of labor as it is; I said I thought organized labor had helped labor; but I also said I felt that labor should be required to incorporate and be under Federal regulation and to be of known responsibility in its negotiations, which is not now the case."

The position of Joseph Schaffner, secretary-treasurer of Hart Schaffner & Marx, was a much more genuine affirmation of industrial democracy.

> If we did not have an agreement with an organization such as we now have, I would certainly insist upon having our employees represented so that they would have an organization among themselves that would dispense the same kind of justice as we have now dispensed by the arbitration board and the trade board. I think the conditions such as we had before, while we got along for many years, and got along very well—in fact, just a few days before the strike one of my friends came in and congratulated me on the fine business that we had and the achievement we had made, and I told him I was very proud of it, but I was prouder still of the happy and contented condition of our employees. That was just two days before the strike. I thought they were just as happy as they are now. I did not know any different.

Even before Schaffner gained his new perspective on labor relations, the ladies' garment manu-

Excerpted from *The American Idea of Industrial Democracy, 1865-1965*, by Milton Derber, pp. 128-134. © 1970 by the Board of Trustees of the University of Illinois. Reprinted by permission.

facturers of New York had been persuaded by Louis Brandeis and Louis Marshall, a prominent New York lawyer, to work out a system of industrial government based on the trade agreement, collective bargaining, and arbitration.

NCF Employers

Like Perkins, many employers belonging to the National Civic Federation did not challenge the right of workers to form unions and to bargain collectively. But their arguments focused on responsibilities rather than rights, on the liberty of the individual rather than the solidarity of the group, on the welfare actions to be provided for the employees rather than the nature of their participation in decision-making. Typical was the following excerpt from a talk by the president of the New York, New Haven, and Hartford Railroad to the Hartford West Side Workingmen's Club.

> To those of you who belong to unions I wish to say I believe they have accomplished much good; but they are, nevertheless, not an unmixed blessing to the laboring man. They tend to the discouragement of individual effort and reduce man to a part of a machine. They are a good thing for the drone, the inefficient man, for the walking delegate and the officers, but are unnecessary for the man who has the stuff and courage within himself to carve his own way in the world. . . .
>
> Now, having hurt the feelings of some of you by the foregoing, I am going to surprise you by saying that I regard the unions as a condition that has come to stay; that I have no prejudice whatever to properly conducted ones, and express my wish that our men generally would join them, not that I would run a union plant as such, for I would not coerce my men nor consent to discriminations as between those who were and who were not members, but I would wish to have in the unions the conservative influence of many of the good men who are out to counteract the floater, the anarchist, the man who has nothing at stake in the world, who works with his mouth more than his hands.

Few of the employer members of the NCF shared the enthusiasm of Ralph M. Easley, founder and general secretary, and later Executive Committee chairman of the organization. Easley, not an employer himself although a close associate of many, often expressed views similar to those of Gompers with whom he had strong rapport. But he also strongly defended the employer's interest in efficiency. Easley was a supporter of conservative unionism and the trade agreement against both "Parryism" (the vituperative anti-union movement led by David M. Parry, president of the Citizens' Industrial Association of America) on the right, and the equally outspoken, anti-Gompersian socialism of Debs and De Leon on the left. He saw unionism as an "industrial democracy" whose major need was to overcome the apathy of its members through education. Industrial peace and industrial justice were his twin goals. When the New York Interborough Rapid Transit Company reached an agreement with its unionized employees, the [a contemporary publication, Monthly] *Review* wrote applaudingly:

> This largest employer in its line of business in the United States did not reply to these [union] demands with the old-fashioned answers that it would "manage its affairs in its own way"; that it would not brook the "interference of outsiders"; that it would "meet only the men in its employ"; that there was "nothing to confer about"; that there was "nothing to arbitrate." Instead, it accepted, through an enlightened directorate and its president, August Belmont, that method of round-the-table conference whose efficacy in securing industrial peace has been practically demonstrated elsewhere, and whose promotion is the main object of the National Civic Federation.

Easley saw no conflict between collective bargaining and the employer's right to control his business. He looked forward to the time when "national prosperity will be coincident with the uplifting of organized labor, so that its admitted errors may become fewer and its sincere cooperation with capital in increasing productivity more frequent." Easley staked much of this thought and prestige on the continued support of big business leaders. When they turned away from their temporary accommodation with the AFL, Easley's voice quickly faded.

Handout 7-4

AVERAGE EARNINGS OF UNION AND NONUNION WORKERS IN SELECTED OCCUPATIONS, 1976

	Average Weekly Earnings				
	(1)	(2)	(3)	(4)	(5)
Occupational Category	Union Workers	Non-union Workers	Ratio: Col. 1 / Col. 2	No. of Workers (thous.)	% of Col. 4 Who Are Union Members
Professional, technical, and kindred workers	$293	$303	0.97	8,687	29.6
Managers and administrators (nonfarm)	342	328	1.04	5,673	11.8
Sales workers	242	250	0.97	2,580	5.3
Clerical and kindred workers	232	172	1.35	10,240	21.3
Craft and kindred workers	307	235	1.31	8,248	43.4
Operatives [a]	243	167	1.46	10,180	46.9
Service workers	212	135	1.57	5,670	27.2

SOURCE: U.S. Bureau of Labor Statistics, *Earnings and Other Characteristics of Organized Workers*, Bull. 556, May 1977.
[a]Generally speaking, operatives are blue-collar workers who are not supervisors or do not have special "craft" skills. Operatives employed in the transportation industries are excluded.

Questions

1. Use the data in the table above to complete the blank worksheet by first rearranging the occupational categories in order of the ratios in column 5, from highest to lowest ratio. Then write in the corresponding figures in the other columns.
2. Use the reorganized information to answer the following questions:
   a. In what two occupational categories are the average earnings ratios highest? Why?
   b. In which occupational groups are unrestricted market forces of supply and demand most likely to determine wages? Why?
   c. What occupational group has the lowest average earnings? Why?
   d. From the data, what can you conclude is a possible relationship between unionization and wage levels?
   e. Using the 1976 data given and your review of labor history in the 1890s, describe the changes that have occurred in union membership between the 1890s and 1976?

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Handout 7-4 (concluded)

WORKSHEET

	Average Weekly Earnings				
	(1)	(2)	(3)	(4)	(5)
Occupational Category	Union Workers	Non-union Workers	Ratio: Col. 1 / Col. 2	No. of Workers (thous.)	% of Col. 4 Who Are Union Members

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Lesson 8: Growth of the Corporation

TIME REQUIRED: Two class periods

RECOMMENDED GRADE LEVEL: 9–12

MAJOR CONCEPTS: Competition
Market structure
Economic institutions: corporations

RELATED CONCEPTS: Productive resources: capital
Productivity
Economic growth

Instructional Objectives: Students will

- After reading the historical essay, (1) describe developments that led to the expansion of the corporate form of business organization after the Civil War; (2) describe the effects of the rise of the corporation on the market structure of the U.S. economy and on the economy as a whole;
- Analyze the costs and benefits of technological improvements on the American economy of the nineteenth century.

Rationale: During the late 1800s the United States rapidly changed from a predominantly agrarian to a predominantly industrial nation. Natural resources were relatively abundant; technology was advancing; transportation and communication facilities were reaching new heights of sophistication; labor was in plentiful supply. Large amounts of capital were needed to mold all these factors into large-scale industrial enterprises.

By 1900, companies with assets of $1 million were fairly common. Funding of such magnitudes required investments far beyond the means of most individuals or groups of individuals. Thus, entrepreneurs increasingly turned to forming corporations.

A corporation may secure funds by selling shares of ownership ("stock") to the public. It also has limited liability—that is, in case the corporation fails because it has more financial obligations than it can meet, its stockholders are legally liable only for the amount they have invested; they are not required to use any of their other assets to satisfy the corporation's debts. (Such a limit does not generally apply as broadly to unincorporated businesses, i.e., partnerships of two or more individuals or a single individual.)

Materials: One copy each of handouts 8-1, 8-2, and 8-3 for every student.

Procedure:

1. Distribute Handout 8-1. Allow time for reading; then have students discuss the following:
   a. What changing conditions in the late 1800s led to increasing resort to the corporate form of organization? (Individual businesses grew larger as: [1] new developments in transportation and communication allowed greater regional specialization and wove together a national economy from local production and markets; [2] new technologies increased efficiency in production and often demanded larger production facilities, e.g., larger factories, oil refineries, locomotives, docks; [3] the bigger enterprises spawned by national markets and new technologies required an increase in the scale of business financing.)
   b. What were the benefits of the corporate form of organization for the economy as a whole? (Increased productivity through economies of scale, i.e., from larger production facilities; encouragement of the specialization necessary to create national markets; increased capacity to accumulate large pools of investment funds, i.e., to purchase many machines, factory buildings, etc., and/or more expensive ones.)
   c. What were the costs of the corporate form of organization for the economy as a whole? (Failure or bankruptcy of some small businesses; the impersonal atmosphere of large businesses; the increased size of enterprises, which enhanced their bargaining power in relation to that of their employees.)
2. Distribute Handout 8-2. Permit students to study the data; then ask them to explain the following:
   a. Why is there such a large difference between the price of the Model K and the price of the first Model T that was placed on the market only a year later? (Henry Ford's introduction of a simple design and interchangeable parts for the Model T greatly lowered production costs.)
   b. Why did the price of the Model T continue to decline? (The introduction of the moving assembly line in 1913 led to large economies of scale.)
   c. In 1914 the going wage in the auto industry averaged about $2.40 for a nine-hour day. In that year, Henry Ford announced a minimum wage of $5.00 for an eight-hour day—and the price of Ford cars was still going down. How was it possible to raise wages and cut prices simultaneously? (The efficiency of the assembly line allowed the company to earn generous profits *and* pay its employees well. But Henry Ford's main motive was to show that enlarged mass purchasing power would increase the market for mass production. By do-

ing so successfully, he set an example for the rest of American industry.)

3. If the students have difficulty answering the questions, you may wish to present the following information regarding the production history of the Ford car.*

> The most spectacular growth industry in the 1920s was of course the passenger automobile, and its early history was associated with the accomplishments of Henry Ford, who introduced his light, sturdy, and inexpensive Model T in 1908. Built on the basis of interchangeable parts, it was simple in design and easy to operate, maintain, and repair. In 1913, when Ford was able to standardize production and step up productivity by the installation of his moving assembly line, output took a sharp jump as costs and prices were cut sharply. In 1908 the whole industry had turned out 65,000 passenger automobiles. By 1915 it was manufacturing 1 million annually, of which Ford's share was almost 40 per cent. What the assembly-line technique did for productivity is evidenced by these figures. By the end of 1913 the average labor time employed to put together a Model T chassis had fallen from 12 hours and 28 minutes to 2 hours and 38 minutes; by the spring of 1914 it was 1 hour and 33 minutes. At the chief Ford plant at Highland Park, Michigan, 1000 vehicles were assembled each day, and the price of the Model T runabout dropped from $500 on August 1, 1913, to $260 on December 2, 1924.

4. Have students discuss the costs and benefits to society of new methods of production and business organization. Ask:
   a. Who were the beneficiaries of the new methods of production and business organization? (Business owners and investors, workers, and consumers.)
   b. How did each of these groups benefit? (Open.)
   c. Were these gains costless? Explain your answer. (This is an open-ended question in which students may explore the impact of the corporation and new methods of production on market structure, job satisfaction, and relative bargaining power of major economic groups.)

Evaluation: Have students read Handout 8-3 and write an essay in response to the following statements:

> By using your knowledge of economic conditions in the United States in the late nineteenth century, explain to what extent the views of the majority of Americans, as described in Nevins's first paragraph, or the views of John D. Rockefeller were justified.

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* Louis M. Hacker, *The Course of American Economic Growth and Development* (New York: Wiley, 1970), p. 280. Reprinted by permission of the publisher.

Handout 8-1

HISTORICAL ESSAY

In the post-Civil War period, 1865-1890, the population of the U.S. rose from 31,513,000 to 63,056,000 persons. About 15 million immigrants came during this period, many were young adults who immediately entered the work force. Not only was there a great increase in the work force but the national market was increased by a large number of new consumers.

In the decades before the [Civil] war an expanding transportation system of canals, steamboat systems, roads and the new railroad[s] had begun to transform essentially local economies into a national market and open the possibilities for greater regional specialization. This process was accelerated in the post-Civil War era, especially by the railroad system that was expanded from 35,085 miles in 1865 to 166,703 miles by 1890. Each of the 1890 miles represented a greatly increased traffic capacity because of the use of the new steel rails and improved rolling stock.

The same period saw impressive gains in industrial technology. Productivity increased as a result of the use of bigger and better machines, made of steel rather than iron and wood as were the machines of the pre-Civil War period, and powered by better steam engines or the new electric and gasoline motors. The savings and investment required by the new technology increased rapidly; for example, the cost of entrance into oil refining during this period rose from $400 for the first refineries to $300,000 by 1880 and to $1,300,000 by 1900.

To provide the capital needed for the new machines and to build the organizations to serve the sales and distribution needs of the growing national market a new form of business organization was required.

Americans paid a price for this new, more efficient organization of the national market. Many small local industries were destroyed by the competition of the huge national corporations [although many new ones sprang up]; farmers and workers could not match the market or bargaining power of the corporations.

Questions

a. What changing conditions in the late 1800s led to increasing resort to the corporate form of organization?
b. What were the benefits of the corporate form of organization for the economy as a whole?
c. What were the costs of the corporate form of organization for the economy as a whole?

From William Murphy, *Strategies and Materials for Topic III, American Economic Life* (Geneseo, N.Y.: published by the Genesee Region Council on Economic Education for the New York State Department of Education, 1971), p. 48.

Handout 8-2

FORD MOTOR COMPANY SALES, 1907-17 *

Model Year	Unit Sales of Cars	Price of Typical Model Car	
1907-1908	6,398	$2,800	(Model K)
1908-1909	10,607	850	
1909-1910	18,664	950	
1910-1911	34,528	780	
1911-1912	78,440	690	
1912-1913	168,304	600	Model T
1913-1914	248,307	550	
1914-1915	221,805 (10 mos.)	490	
1915-1916	472,350	440	
1916-1917	730,041	360	

Questions

a. Why is there such a large difference between the price of the Model K and the price of the first Model T that was placed on the market only a year later?

b. Why did the price of the Model T continue to decline?

c. In 1914 the going wage in the auto industry averaged about $2.40 for a nine-hour day. In that year, Ford announced a minimum wage of $5.00 for an eight-hour day—and the price of Ford cars was still going down. How was it possible to raise wages and cut prices simultaneously?

*From Robert L. Heilbroner, *The Making of Economic Society*, 5th ed. (Englewood Cliffs, N.J.: Prentice-Hall, 1975), p. 106. Used by permission of Charles Scribner's Sons from *Ford: The Times, the Man, the Company* by Allan Nevins. Copyright 1954 Columbia University. Compiled from pp. 644 and 646-647.

Handout 8-3

ALLAN NEVINS ON JOHN D. ROCKEFELLER

The historian Allan Nevins, writing of the period in which American industry came of age, said:

The majority of Americans in those days believed as fervently in the gospel of laissez-faire as in the gospel of Christianity. They put their faith in private enterprise and free competition. They were convinced that the stress of such competition enabled consumers to buy goods and services at the lowest price; that it compelled industry to take full advantage of new inventions and better techniques; that it destroyed extortionate and inefficient units, and brought about a survival of the fittest. They held that unrestricted competition released enterprise, stimulated ingenuity, and resulted in a maximum production at minimum prices, with the result that more workers were employed, and more consumers were supplied. . . .

But as regards that faith Rockefeller was a heretic. He had seen enough of industry to know that unrestrained economic individualism did not always work. The theories might have fitted the early machine capitalism of the beginning of the century; they did not fit a system wherein the scale of production had vastly increased, wherein small businesses could not operate economically, and wherein overdevelopment meant waste, bankruptcy, and unemployment. He saw the ravages of excessively free competition in railroading. He saw that in various industries the growth of techniques (for example the Bessemer process soon to revolutionize steel manufacture) so enlarged the scale of production that the market afforded room for only a few establishments, and a host of small entrants would mean chaos. He saw that unbridled competition often inflated the costs of production, and that it increased in still greater degree the expense of distribution. He saw the human tragedies involved in the rapid mortality of small manufacturers and small traders. . . .

Assignment
Write an essay on the following:

By using your knowledge of economic conditions in the United States in the late nineteenth century, explain to what extent the views of the majority of Americans, as described in Nevins's first paragraph, or the views of John D. Rockefeller were justified.

From Allan Nevins, *John D. Rockefeller* (New York: Charles Scribner's Sons, 1940), pp. 385-386.

Lesson 9: Changing Structure of American Industry

TIME REQUIRED: Four class periods

RECOMMENDED GRADE LEVEL: 11–12

CONCEPTS: Competition
Market structure

Instructional Objectives: Students will

- Describe various methods of consolidation and their effects on the market system;
- Evaluate the effects of business consolidation on the market system;
- Decide whether government intervention was justified.

Rationale: During the late 1800s, as business matured, new methods of organization began to emerge. One development, the corporation, entailed a concentration of resources that helped the United States to become an industrial power. As corporations grew, some entrepreneurs modified the economic structure further by creating horizontal and vertical consolidations, pools, and mergers, and through them gained a larger share of the market for their particular product or service. The simulation "Competition vs. Merger" vividly illustrates the motivations underlying these strategies and their effects on the American economic system.

Materials: One copy each of handouts 9-1, 9-2, and 9-5 for every student. One copy each of handouts 9-3 and 9-4 for every company.

Procedure:

1. DAYS ONE AND TWO: Conduct the simulation "Competition vs. Merger." See instructions on pp. 69-70.
   NOTE: During the three days required for the simulation you may wish to have students read some of the following as a home assignment. These and similar readings provide useful background for student participation in the simulation and in the review session.
   a. Material in textbooks or other references dealing with the consolidation of the railroads, development of the oil and steel trusts, and the Granger Movement.
   b. Allan Nevins, *John D. Rockefeller, Industrialist and Philanthropist* (New York: Charles Scribner's Sons, 1953), Vol. I, pp. 64-65.
2. DAY THREE: For review: post or write on chalkboard financial results of the simulation and have students discuss:
   a. Why the transport companies lost money and the refinery made large profits. (Encourage students to explore the problem until they see that the key to the answer is an understanding of the market power of monopoly enterprises and its relation to the market power of competitive industries.)
   b. Why efforts at cooperation or collusion between the transport companies failed. (An inability to agree on how losses would be distributed among them and the tendency of one or more to set lower prices than all five agreed on or tried to agree on.)
   c. Did the simulation explore all the possibilities open to the transport companies to reduce costs or increase profits? (Student responses should be based on ideas gleaned from the readings assigned at the beginning of the simulation.)
   d. What remedies might be sought by entrepreneurs or investors whose profits are severely curtailed or who go bankrupt from market conditions set by monopolies or other forms of business collusion? (This question should elicit responses indicating demand for government intervention and regulation.)
   e. Distribute Handout 9-5. Assign as overnight reading or provide time for reading in class.
3. DAY FOUR: Have students compare the actual events as described in the reading with their experiences in the simulation. To initiate discussion ask:
   a. In what way is the situation described in the reading similar to the simulation?
   b. In what way is the situation different?
   c. In the long run would a few of the transport companies have survived because of their individual efficiency?
   d. Based on what you have just read, what do you think the transport companies would have tried to do in John D. Rockefeller's day and what would the probable results have been?

SPECIAL NOTE: In the long run, the transport companies (railroads) in the simulation would have to make major adjustments to stay in business; some, in fact, would probably go bankrupt. The basic reason, of course, is that their combined carrying capacity of 240,000 to 480,000 barrels per week, is so much greater than the weekly oil shipments of 100,000 barrels. Some of the possible adjustments would be to try to use part of the excess carrying capacity for other goods; to sell part of the excess carrying capacity to railroads in some other part of the country; to write off and scrap part of the extra capacity. Other possible strategies center on measures that would increase the railroad's revenues by charging more to shippers of products against whom they are in a strong bargaining position, for instance, small manufacturers. They might charge more to an entire industry providing it consists of small, weak bargainers: farmers are a prime example. (Students will learn from the readings that farmers complained bitterly against railroad pricing practices in the latter part of the nineteenth century.) Railroads

could also offer rebates to customers whom they wished to attract.

Evaluation: Have students prepare a paper to support or refute the following statement:

> The "laissez-faire" market system can become self-defeating. Competition is its most central quality—yet there is a tendency in a free market setting for competitors to minimize or even destroy competition.

Directions for Playing the Simulation "Competition vs. Merger"*

DAY ONE (class organization)

1. Divide the class into groups of four or five students. Designate one group the "Oil Refining Corporation," and the other groups as "Oil Transporting Companies." There should be at least three transport companies; in larger classes, you may wish to create up to six transport companies.
2. Appoint or have each group select a president and a treasurer. The president will represent the group in negotiations and make final decisions following group discussions. The treasurer will be responsible for recording the group's financial standing at the end of each round.
3. Announce the general rules of the simulation. Keep the explanation brief.

   Instructions (Read aloud to class): In this exercise there is one oil refinery—The Oil Refinery Corporation. Each week it ships up to 100,000 barrels of oil, in units of 20,000 barrels. Shipments may be divided among competing oil transport companies in any way the Oil Refinery Corporation sees fit. The single objective for each group—both the refinery and the transport companies—is to maximize profits. Remember, too, that much of the financial information of your group is confidential.
4. At this point, distribute Handout 9-1 to members of the Oil Refinery Corporation and Handout 9-2 to the oil transport companies. Provide each transporting company with one copy of Handout 9-3 and one copy of Handout 9-4. Allow several minutes for the transport groups to decide upon names for their companies.
5. The remainder of the class session should be spent reviewing the rules of the exercise while explaining the bidding procedure and the accounting system. Students probably will need to be reminded that some costs of the refinery company go on regardless of whether or not they ship oil. Other costs, of course, are incurred only when they ship oil.

   The general procedures for each round of the exercise are as follows: Each transport company will decide on a bid to be submitted in a sealed paper or envelope by its president. The Oil Refinery Corporation will then evaluate the bids and decide how to allocate its business among the competing companies. The president of the refinery will then post the name of the winning companies (or company) on the chalkboard.

   NOTE: If sufficient time remains (about 15-20 minutes), the class can begin Round 1 (see below).

DAY TWO

Round 1: The actual bidding should follow a brief review of the directions. Each transport company will submit its bid. The teacher's role in the first round should be confined to helping with the accounting system.

While the management team of the refinery decides which bids to accept, the transport companies can be preparing for Round 2. When the refinery has decided, its president will post the name(s) of the winning bidder(s) on the blackboard. But the teacher and the management team of the refinery should keep the profits or losses on the deals secret. (Round 1 should take about 15 minutes.)

Round 2: The teacher plays a more active role in this round by encouraging the refinery to *bargain down* shipping costs. At the same time, the transport companies should be told to consider the formation of pools. (Pooling that restrains competition is now illegal. It took place when two or more competitors agreed to limit operations and share output, territory, or profits. In this exercise, the transport companies will try to "pool" their bids to cut competition. One company, for example, might promise to drop out of competitive bidding for one round if another company elected to do so later. Or, the winning bidder, promised no competition from another company, might rebate some of its profits to that company to strike that bargain.)

Make this announcement: "The president of each transport company may send *one* representative to any other transport company to confer and negotiate for *five* minutes." Again, remind the various transport companies that some of their costs go on whether or not they haul oil. At the end of five minutes announce: "Return to your teams and submit new bids." (Allow about 10-15 minutes for this round.)

Round 3: If pools develop among some of the transport companies, direct the refining corporation to smash the pools by awarding its business to some or all of the remaining companies.

The advantage clearly lies with the refinery and by now most of the transport companies should be losing money. Usually enough rounds can be played in a class period for students to see the direction this competition for a monopoly's business must take. In some classes, it may be necessary to continue into part of the third

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day. At the conclusion of the activity, the teacher should collect a financial statement of profits and losses from each group.

DAY THREE

This session should be devoted to a summation and evaluation of the simulation. The financial statements by now will show the refinery making a handsome profit while most or all of the transport companies will be suffering losses. Open the discussion by posting the financial status of each group. The purpose of review is to clarify what the exercise reveals about market power.

Handout 9-1

THE OIL REFINING CORPORATION

INSTRUCTIONS AND WORKSHEET

Your company is the most important shipper of oil in barrels in western Pennsylvania in 1870. Each week you ship up to 100,000 barrels of crude oil to your refinery in Cleveland, Ohio. You have your choice of a number of alternative railroad lines. The exact number will be announced by your teacher. The total shipping capacity of all the transport companies is greater than 100,000 barrels a week, so you are in a good position to bargain for the most favorable rates.

Instructions for the Simulation:

Your company can pay up to $40,000 a week to ship 100,000 barrels of oil (at the rate of 20,000 barrels per shipment). Your weekly profit is the difference between the actual shipping cost you pay and $40,000. If, for example, you are able to ship 100,000 barrels for $20,000, your profit is $20,000; if you pay out $30,000 shipping cost your profit is $10,000. You may choose to ship less than 100,000 barrels, *but you must subtract $10,000* from the $40,000 for every 20,000 barrels you withhold. Each round of the simulation equals one week's business.

One officer of your company will be the treasurer. In addition to helping make decisions, the treasurer will keep a record of the financial status of the company at the end of each round, according to the form below.

Another member will be the president. At the beginning of each round (after round one), the president may send one member of your group to negotiate with one or more transport companies if that is believed to be the best strategy. This negotiation may take place only during times announced by your teacher. *Your objective is to maximize your profits.*

FINANCIAL STATEMENTS

ROUND 1

Opening Allowance $40,000 _____

Less bid(s) accepted (total) _____

Less $10,000 for unit(s) not shipped _____

Profit or (loss) _____

ROUND 2

Balance from Round 1 _____

Plus $40,000 _____

Less bid(s) accepted (total) _____

Less $10,000 for unit(s) not shipped _____

Profit or (loss) _____

ROUND 3

Balance from Round 2 _____

Plus $40,000 _____

Less bid(s) accepted (total) _____

Less $10,000 for unit(s) not shipped _____

Profit or (loss) _____

ROUND 4

Balance from Round 3 _____

Plus $40,000 _____

Less bid(s) accepted (total) _____

Less $10,000 per unit(s) not shipped _____

Profit or (loss) _____

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Handout 9-2

OIL TRANSPORTING COMPANY

INSTRUCTIONS

Your railroad has the capacity to transport 80,000 barrels of crude oil from western Pennsylvania to Cleveland each week. You must meet certain *overhead* expenses for taxes, depreciation, interest and other *fixed costs* each week, whether your company does any business or not.

Fixed costs	$10,000 per week
Variable costs (including expenses for wages and fuel for every 20,000 barrels shipped)	$ 2,500

Instructions for the Simulation: Your railroad will bid in competition with other oil transporting companies. Bids will be made for unit shipments of 20,000 barrels. Your costs for each bidding round (equal to one week's business) are shown below:

No crude oil shipped by your company	$10,000
One unit of 20,000 barrels	$12,500
Two units of 20,000 barrels	$15,000
Three units of 20,000 barrels	$17,500
Four units of 20,000 barrels	$20,000

Your company president will be permitted to bargain with other transportation companies, but only during announced bargaining periods. And remember to *keep the financial status of your company confidential.*

Start by preparing a bid on 80,000 barrels of the 100,000 barrels that can be shipped weekly by the Oil Refining Corporation. Your company has a cash reserve of $10,000 prior to your opening bid.

The treasurer of your company will fill in your bid on the bid form. The treasurer also is responsible for recording the financial status of the company at the end of each round on the accounting form.

Your objective is to maximize your profits.

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Handout 9-3

TRANSPORTING COMPANY BID FORMS

BIDS FROM TRANSPORTING COMPANY _____
(Name of company)

For shipping 20,000 barrels . . . . . $ _____
For shipping 40,000 barrels . . . . . $ _____
For shipping 60,000 barrels . . . . . $ _____
For shipping 80,000 barrels . . . . . $ _____

- - - -

Handout 9-4

TRANSPORTING COMPANY ACCOUNTING FORM

Name of Company _____

ROUND 1

Cash reserve . . . . . $ _____

Receipts from this round . . . . . $ _____

Total . . . . . $ _____

Cost of this week's business ($10,000 overhead must be met whether or not your company wins the bidding in this round) . . . . . $ _____

New balance to be carried over to next round . . . . . $ _____

ROUND 2

Cash reserve . . . . . $ _____

Receipts from this round . . . . . $ _____

Total . . . . . $ _____

Cost of this week's business ($10,000 overhead must be met whether or not your company wins the bidding in this round) . . . . . $ _____

New balance to be carried over to next round . . . . . $ _____

ROUND 3

Cash reserve . . . . . $ _____

Receipts from this round . . . . . $ _____

Total . . . . . $ _____

Cost of this week's business ($10,000 overhead must be met whether or not your company wins the bidding in this round) . . . . . $ _____

New balance to be carried over to next round . . . . . $ _____

ROUND 4

Cash reserve . . . . . $ _____

Receipts from this round . . . . . $ _____

Total . . . . . $ _____

Cost of this week's business ($10,000 overhead must be met whether or not your company wins the bidding in this round) . . . . . $ _____

New balance to be carried over to next round . . . . . $ _____

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Handout 9-5

DESTROYING COMPETITION

In the 1870s, John D. Rockefeller set out to dominate the oil refinery industry. His scheme for Standard Oil's takeover involved collusion with the major railroads.

[Rockefeller] looked upon the disorganized conditions of the Pennsylvania oil fields, the only source then known, and found them not good: the guerrilla fighting of drillers, of refining firms, of rival railroad lines, the . . . changes in supply and market value—very alarming in 1870—offended his orderly and methodical spirit. . . .*

Even as early as 1868 the first plan of industrial combination in the shape of the pool had been originated in the Michigan Salt Association. Desiring to correct chaotic market conditions, declaring that "in union there is strength," the salt-producers of Saginaw Bay had banded together to control the output and sale of nearly all the salt in their region, a large part of the vital national supply. Secret agreements had been executed for each year, allotting the sales and fixing the price at almost twice what it had been . . . prior to the appearance of the pool. And though the inevitable greed . . . of the individual salt-producers had tended to weaken the pool, the new economic invention was launched. . . .

This grand idea of industrial rationalization owed its swift, ruthless, methodical execution . . . to the firmness of character of Rockefeller. . . .

[His] broad purpose was to control and direct the flow of crude petroleum into the hands of a narrowed group of refiners. The refiners would be supported by the combined railroad trunk lines which shipped the oil; while the producers' phase of the stream would be left unorganized—*but with power over their outlet to market* henceforth to be concentrated into the few hands of the refiners.

Saying nothing to others, bending over . . . maps of the industry, Rockefeller and Flagler first drew up a short list of the principal refining companies who were to be asked to combine with [them.] Then having banded together a sufficient number, [they] would persuade the railroads to give [them] special freight rates—on the ground of "evening" the traffic—guaranteeing equitable distribution of freight business; and this in turn would be a club to force other elements needed into union with [them.] [They] could control output, drive out competitors, and force all foreign countries throughout the world to buy [their] product [at their] own terms. [They] could finally dictate market prices on crude oil, stabilize the margin of profit . . . and do away at last with the dangerously speculative character of their business.

The refiners . . . combined under the Rockefeller dominated pool were to have a rebate of from 40 to 50 per cent on the crude oil they ordered shipped to them and from 25 to 50 per cent on the refined oil they shipped out. The refiners in the Oil Regions were to pay *twice as much* . . . as the Standard Oil Company at Cleveland. But besides the rebate the members of the pool were to be given also a "drawback" consisting of part of the increased tariff rate which "outsiders" were forced to pay. Half of the freight payments of a rival refiner would in many cases be paid over to the Rockefeller group. Their competitors were simply to be decimated. . . .

The railroad systems, supposedly public-spirited and impartial, were to open all their knowledge of rival private business to the pool, thus helping to concentrate all the oil trade into the few hands chosen. In return for so much assistance, they were to have their freight "evened," and where enabled

*With unbridled competition in the oil regions the different refiners could not know from day to day what their raw materials would cost, as new wells came in or gave out. A refiner in Cleveland might buy his petroleum at $6 a barrel for future use; then on the following day, his competitors might cover their needs for half, or vice versa. Similarly the railroads would experience a heavy demand for cars at one period, succeeded by periods of slackness when prices were low and production was discouraged. New inventions, such as that for pumping oil through pipes (Van Syckel's pipeline of 1865) added further to the confusion of the trade, upsetting the elements of cost and supply anew.—Josephson's note.

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Handout 9-5 (concluded)

at last to enter into a . . . peace pact with each other by which the oil traffic (over which they had quarreled bitterly) was to be fairly allotted among themselves.

Now a sort of terror swept silently over the oil trade. In a vague panic, competitors saw the Standard Oil officers come to them and say (as Rockefeller's own brother and rival, Frank, testified in 1876): "If you don't sell your property to us it will be valueless, because we have got the advantage with the railroads."

The railroad rates indeed were suddenly doubled to the outsiders, and those refiners who resisted the pool . . . became frightened and disposed of their property.

All this transpired in secret. For "silence is golden," the rising king of oil believed. Though many were embittered by their loss, others joined gladly. Within three months by an economic *coup d' etat* the youthful Rockefeller had captured all of Cleveland's oil-refining trade; all twenty-five competitors [had] surrendered to him and yielded him command of one-fifth of America's output of refined oil. By 1880, Rockefeller's Standard Oil Company controlled 90 per cent of America's oil refinery industry.

Questions

a. In what way is the situation described in the reading similar to the simulation?
b. In what way is the situation different from the simulation?
c. In the long run would a few of the transport companies have survived due to their individual efficiency?
d. Based on what you have just read, what do you think the transport companies would have tried to do in John D. Rockefeller's day and what would the probable results have been?

Lesson 10: Changing Role of Government in the Economy *

TIME REQUIRED: Two or three class periods

RECOMMENDED GRADE LEVEL: 11–12

CONCEPTS: Competition
Government regulation
Economic goals

Instructional Objectives: Students will

- Describe the role of government in the economy prior to 1887 and explain how its role changed beginning with the passage of the Interstate Commerce Act.
- State the purposes of specific antitrust legislation passed between 1887 and 1937 and describe the value conflicts involved.
- Evaluate government intervention policy after 1887 on the basis of an analysis of how well that policy achieved specific economic goals and what groups actually benefited.

Rationale: The growth of "big business" in the latter half of the nineteenth century spawned monopolies and monopolistic practices that worked to destroy competition (Lesson 9 gives illustrations). These practices led to a demand for government regulation that would eliminate the abuses of monopoly. In its attempt to end anticompetitive business practices, the federal government enacted a series of antitrust laws that considerably altered as well as expanded the role of government in the economy.

Antitrust policy raises several important questions. Is government regulation necessary to maintain competition in the U.S. economy? If so, what kinds of policies are appropriate and what is their effect on important economic goals such as freedom, equity, efficiency, and growth?

Materials: One copy each of handouts 10-1, 10-2, 10-3, and 10-4 for every student.

Procedure:

1. Distribute Handout 10-1. Allow time for reading and preparation of answers to discussion questions. Use remaining class time for open discussion.
   a. What evidence is there in the reading to support the following statement: "Even during the so-called laissez-faire period of our history, the [national, state, and local] government[s] actually took a very active role in the economy"?
   NOTE: Specific government actions cited in the reading are the protective tariffs imposed after the War of 1812, government grants to subsidize the building of canal systems in the 1830s and 1840s, and land grants made to the railroads. For additional examples you may wish to have students refer to their textbooks [e.g., establishment of the First and Second National Banks, 1791-1832; establishment of a national postal service, 1790-1860; government subsidies for the building of roads, etc.])
   b. What was the purpose of the Interstate Commerce Act of 1887? (Its major purpose was to regulate freight rates and other aspects of competition in the transportation industry.)
   c. Can you explain what the author means by the statement, "Government regulation of business in its present pattern probably dates from the passage of the Interstate Commerce Act of 1887"? (Prior to this time, federal government actions were primarily designed to stimulate the growth of business and industry; the ICC Act represented an effort to regulate an industry.)
   d. In the last section of this reading the author indicates that the passage of regulatory laws since the end of World War II "has helped to keep the competitive environment in the United States considerably livelier and healthier than it would otherwise have been. . . ." Do you agree or disagree with this conclusion? Cite examples from the reading or from your knowledge of current economic conditions to support your conclusion. (Student answers will vary.)
2. As either a homework assignment or as a small-group assignment in class, have students use their textbooks and other references to find (a) the major provisions, (b) the original objectives, and (c) the effects of each of the congressional acts listed below.
   - Interstate Commerce Act (1887)
   - Sherman Antitrust Act (1890)
   - Clayton Antitrust Act (1914)
   - Federal Trade Commission Act (1914)
   - Robinson-Patman Act (1936)
   - Miller-Tydings Act (1937)
3. Distribute Handout 10-2 (or write the questions on the chalkboard) and have students use their findings from Procedure 2 to answer the following questions in class discussion:
   a. What do you think was the primary objective of the antitrust legislation passed by Congress between 1887 and 1937? (The major purpose was to regulate or restore competition. A number of students may perceive the major

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purpose as one of breaking up monopolies. It is important, however, that they understand that this was the means by which the government hoped to assure "fair" competition among business firms.)

b. Do you think federal government regulation was needed or justified? Why or why not? (This and the following questions are open-ended; students should be encouraged to express their opinions freely and to cite specific examples or data to support their positions.)

c. Freedom, efficiency, equity, stability, and growth are generally cited as major goals of the U.S. economic system. Which of these goals do you think were the bases for federal government economic policy prior to 1887? Which were the bases for the act creating the ICC? The Sherman Antitrust Act? The Clayton Antitrust Act? The Robinson-Patman Act? The Miller-Tydings Act?

d. Several critics of federal government regulatory practices have claimed that the provisions of the Robinson-Patman and the Miller-Tydings acts are inconsistent with the antitrust legislation passed earlier. To what extent do you think this view is justified?

4. Distribute Handout 10-3. After students have read the article and the follow-up, ask them to discuss:

a. The basic dispute between the workers and the company, and the basic legal issue. (The basic dispute was over control of the workplace by the company vs. the right of employees to refuse a task they believed would endanger their lives. The basic legal issue was whether the Labor Department had the right to issue the regulation that prohibited employers from disciplining employees who believed an assigned task would endanger their lives.)

b. What were the legal points at issue when the case went to the U.S. Supreme Court? (The federal district and appeals courts both had basically upheld the Labor Department's—i.e., the workers'—side of the dispute about the danger involved. But the district court had said the Labor Department did not have the legal authority to issue the regulation on safety under the Occupational Safety and Health Act of 1970. This act created OSHA, the Occupational Safety and Health Administration, which is in the Labor Department.)

c. What was a secondary dispute in the case? (Whether employees should lose pay if they refuse a dangerous assignment.)

d. Do you think the Supreme Court decision was correct—in whole? in part? not at all? (Open-ended discussion.)

e. What do you think may be the economic and other costs to the parties involved and to society as a result of the Supreme Court decision? (Fewer workers will be killed or injured, but the companies will probably have to spend more on safety devices or relax their work rules. Company costs will thus be raised and so may the prices of its products to consumers. The decision may also lead to further disputes about the extent of management control over the workplace and working conditions.)

Evaluation: Distribute Handout 10-4. Have students read the handout and then, working in groups of four or five members each, prepare written responses to the following:

1. Based on the reading, what is the economic argument that supports consolidation in the record industry? (Big companies that vigorously compete with each other can sell more cheaply and are financially stronger than a large number of small independents.)
2. What is the economic argument against consolidation? (The independents have sponsored many new artists and are willing to gamble to get "hit" records. They are colorful entrepreneurs whose competitiveness and innovations benefit consumers.)
3. Assign some groups to represent the Antitrust Division of the Justice Department arguing on the side of the independents, and assign others to represent large record companies. Have members of each type of group marshal all the arguments that support their positions and those that can be used to attack the positions of their opponents. Review the results with the class as a whole.

NOTE: Here are definitions of some economic and financial terms used in Handout 10-4 that you may want to pass on to your students.

Cash flow. The term "flow" reflects the fact that a company's cash position is in a constant state of flux as a result of continuing activity. As used in the handout, cash flow is the amount of money available to a business as a result of all its receipts from sales, from repayments of money it may have lent, from money it is borrowing, from cash on hand or in the bank, and from any other sources of funds.

Vertical integration. Refers to a form of business organization that enables a corporation to perform all or most of the steps by which a product is brought to market. A vertically integrated company in the record industry selects the performers and the music, records the performance, manufactures the record, and distributes it to retailers.

To help students understand the cash-flow problem that often resulted from traditional methods of record distribution, have them discuss the types of expenditures required for making a record, e.g., searching out new types of music and musicians; making payments to musicians and technicians for the initial recording; making payments to the pressing facility for manufacturing the record. Also remind them of the time lag between the company's payment of the above costs and its receipts—the

company does not receive payment from the distributor until its records have been actually purchased by retail stores.

Conglomerate. A large corporation that produces and sells many different kinds of goods (and often services) that are unrelated to each other by use or by market. Such a corporation usually gets into its many lines of endeavor by acquiring already established companies through mergers.

Profit center. A segment of a large business for which one can determine—on a continuous basis—how profitable (or unprofitable) that segment is.

Receivables. Funds due to a business after it has already sold goods to its customers or performed its services for them.

Royalties. A payment to the owner for the right to use or produce a product—in the present case, producing a phonograph record.

Teacher Background Information on Government Legislation for Regulation of Business Practices

INTERSTATE COMMERCE ACT (1887)

• *Legislation:* Prohibited railroads from establishing rebates or special favors, pools, long- and short-haul differentials, and unreasonable rates.

Established the Interstate Commerce Commission (ICC) to administer the law. The ICC was given the power to issue cease-and-desist orders but if the companies ignored such orders the commission had to go to court to force compliance.

• *Original Objectives:* To regulate rates and other aspects of competition in the transportation (railroad) industry and to protect consumers of railroad services.

• *Results:* Enforcement was hampered for years by the inadequate powers of the ICC, and the operation of the courts. During the first eighteen years of the ICC's existence the Supreme Court heard seventeen cases and found in favor of the railroads in fifteen of them. Furthermore, the burden of proof in a controversy between the ICC and the railroad(s) was on the former. Although the ICC could declare a rate to be unreasonable, it could not set a reasonable rate. Since rebating was considered the act of an individual for which the railroad was not liable, the commission's efforts to stop such practices were hindered.

The power and prestige of the ICC gradually increased as a result of the passage of several amendments to the original act in 1906 (Hepburn Act), 1910 (Mann-Elkins Act), and 1920 (Esch-Cummins Act).

The situation with regard to railroad monopolies did not appreciably change until after World War I. The change may have been more a result of the competition railroads were encountering from intercity bus lines, trucking companies, and privately owned automobiles than a result of the regulatory authority of the ICC.

Perhaps the major impact of the act was to set a precedent for establishing the right of federal government agencies to regulate business practices.

SHERMAN ANTITRUST ACT (1890)

• *Legislation:* Outlawed all combinations in the form of trusts or "conspiracies in the restraint of trade." Any violation of the act was made a criminal offense (misdemeanor) punishable by fine or prison sentence, or sometimes both.

• *Original Objectives:* To promote competition and to restrict or put a stop to anticompetitive business practices.

• *Results:* Initially, the officials who were supposed to enforce the legislation had neither the funds nor the inclination to do so. The act was invoked only eighteen times in its first ten years, and four of those cases involved labor unions.

Business combinations actually increased. Although the act forbade agreements among independent firms (so-called loose-knit combinations), it did not forbid close-knit combinations, i.e., mergers or consolidations.

The language of the act was vague and subsequently had to be clarified by the courts. This proved to be a long and difficult task and many anticompetitive business practices took place while the courts developed a position on the act in such cases as *U.S.* v. *E. C. Knight* (1895), *Addyston Pipe and Steel* v. *U.S.* (1899), *Northern Securities* (1900), etc. Moreover, the definitions the courts gave to such terms as "trust," "conspiracy," and "restraint" tended to favor business and make the act additionally ineffective.

CLAYTON ANTITRUST ACT (1914)

• *Legislation:* Prohibited price discrimination, interlocking directorates, and the acquisition of competitors where the result would be a substantial lessening of competition.

Declared peaceful strikes, picketing, and boycotts to be legal, and restricted the use of the court injunction against labor unions.

• *Original Objectives:* To strengthen the Sherman Antitrust Act, prevent development of monopoly power, promote competition, and reduce use of the antitrust legislation against organized labor.

• *Results: U.S. Steel* v. *U.S.* (1920): The Supreme Court applied the "rule of reason" (i.e., good vs. bad monopolies) in finding U.S. Steel not in violation of antitrust laws because "the law does not make mere size an offense, or the existence of unexerted power an offense."

Thatcher Manufacturing Co. v. *F.T.C.* (1926): The Court held that the Clayton Act strictures against the purchase of a competitor applied only to purchases of stock and that no violation occurred when one competitor bought the assets of another. (This interpretation was negated by the Celler Amendment of 1950).

These decisions of the Supreme Court contributed to a new wave of mergers. From 1925 to 1930 more than 1,238 consolidations occurred. Since many of the consolidations involved more than one company, nearly 7,000 separate companies disappeared as a result of mergers in this period.

FEDERAL TRADE COMMISSION ACT (1914)

• *Legislation:* Established the Federal Trade Commission (FTC) and gave it power to issue cease-and-desist orders against corporations deemed in violation of the Clayton Act and to report antitrust violations

and unfair trade practices to the U.S. Attorney General.

- *Original Objectives:* To close loopholes in the Sherman Antitrust Act; to promote competition; and to provide an agency for investigating and controlling business practices.
- *Results:* An important function of the FTC has been to clarify antitrust laws by offering a set of guidelines for business to follow and to act as a policing agency to see that these guidelines are implemented. But in most cases enforcement has been left to the courts.*

ROBINSON-PATMAN ACT (1936)

- *Legislation:* Prohibited firms from selling at "unreasonably" low prices for the purpose of destroying competition.
- *Original Objectives:* Essentially meant to protect small retailers from "unfair" price competition by large retailers or manufacturers. Small retailers were complaining that larger ones were deliberately lowering prices to "drive out" their smaller competitors, and that they were sometimes assisted in this aim by obtaining "unfair" discounts on large-volume purchases from manufacturers. It was also alleged that after small retailers were driven out of business, the remaining retailers would charge higher prices than before or would introduce less competitive pricing policies.
- *Results:* This act has enabled small businesses to survive more easily in the marketplace but it has also been charged that Robinson-Patman has resulted in higher prices to consumers and has actually hindered competition by discouraging economies of scale. As of this writing Robinson-Patman is still controversial and there is division even within the government. Basically the Federal Trade Commission supports the act while the Anti-Trust Division of the Justice Department opposes it.

MILLER-TYDINGS AMENDMENT (1937)

- *Legislation:* Exempted fair-trade contracts, i.e., establishment of minimum retail prices of a good by the manufacturer, from the Sherman Antitrust Act.
- *Original Objectives:* Protect small businesses.
- *Results:* Results were basically the same as those described for the Robinson-Patman Act. In both instances questions were raised as to whether legislation to protect small businesses was in conflict with earlier legislation to promote competition. Critics argued that allowing minimum retail prices to be set and prohibiting large producers from offering reduced prices for higher volume in effect interfered with the price mechanism and thereby restrained rather than promoted competition in the market. The Supreme Court adopted the critics' position when it declared the Miller-Tydings Act unconstitutional in 1951.

* The Federal Trade Commission Act was amended in 1938 to outlaw "unfair methods of competition in commerce and unfair or deceptive acts . . . in commerce." The wording was left vague in order to allow the commission to extend its jurisdiction over new "unfair" practices as they developed, but the wording has also hampered enforcement since it is open to conflicting interpretations.

Handout 10-1

REGULATING THE MARKET SYSTEM

Today there exist dozens of federal agencies, commissions, and bureaus—with thousands of employees and considerable powers—that regulate different aspects of the market economy. In this reading, Richard Holton surveys the history and nature of federal involvement in business competition, consumer protection and the labor market.

Government regulations of business are pictured, perhaps not inaccurately, as being so [widespread] that most major decisions in the large firm must be reviewed for consistency with federal law and . . . regulations before they are carried out. Corporate plans for advertising campaigns, for mergers and acquisitions, for changes in employment practices, for new stock issues, for changes in the manner of computing and reporting [profits], for pricing to different groups of customers—all can raise questions that the management must put to its legal staff.

Although businessmen are inclined to date the great intrusion of government into business from the days of Franklin D. Roosevelt's tenure in the White House, the role of government in business life was by no means insignificant before then.

Evolution of Business-Government Relations

Until the late-nineteenth century, legislation was designed, on the whole, to encourage business and commerce. After the War of 1812 . . . protective tariffs were enacted to promote the growth of American industry. . . . The canal system was developed during the 1830's and 1840's in part through government subsidy. In the 1860's and 1870's massive land grants promoted railroad development, and some 130 million acres were given away by the federal government. . . . This action perhaps set a record . . . for government support and encouragement of business in the United States.

Government regulation of business in its present pattern probably dates from the passage of the Interstate Commerce Act of 1887. . . . The farmers and ranchers of the Midwest and West became increasingly suspicious of the railroads and the financial interests of the East. Discriminatory freight rates infuriated the famers, yet [were caused by the] ruinous competition among the railroads. The Interstate Commerce Act of 1887 attempted to solve these problems by setting up the Interstate Commerce Commission to regulate freight rates and other aspects of competition in the transportation field.

At the same time, [company] agreements to soften [or destroy] competition . . . led to the Sherman Act of 1890. It was becoming increasingly apparent that competitive behavior had to be policed in some degree. The Food and Drug Act of 1906, the Clayton Act of 1914, and the Federal Trade Commission Act of the same year were all designed to set up "rules of the game" for competition. World War I brought an end to this first major wave of regulatory legislation.

The business prosperity of the 1920's, marked by relative calm in business-government relations, was smashed by the stock market crash and the ensuing Depression. New federal agencies—The Securities Exchange Commission, the Federal Communications Commission, the Civil Aeronautics Board, and the National Labor Relations Board, to cite a few—imposed new requirements on American business. . . .

World War II again brought [an end to] significant new restrictive legislation, and the 1950's and 1960's witnessed for the most part only relatively minor modifications of regulatory [laws] already on the books.

Government and the . . . Markets

The many regulatory laws that have been enacted since the I.C.C. Act and the Sherman Act have been a sore spot with most businessmen over the years. . . . Businessmen . . . complain about overzealous bureaucrats who allegedly have an inadequate understanding of the real world of commerce and therefore fail to realize the full consequences of their actions. [Yet] in private, if not in public, discussions, it is agreed that regulatory legislation has helped to keep the competitive environment in the

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From "Business and Government," by Richard H. Holton, in *The American Business Corporation*, edited by Eli Goldston, Herbert C. Morton, and G. Neal Ryland. Reprinted by permission of The M.I.T. Press. © 1969 by The American Academy of Arts and Sciences; as excerpted from *Economics and the American Dream*, a multi-media kit. © 1975 Newsweek, Inc. Reprinted by permission from Educational Audio Visual Inc., Pleasantville, New York 10570. All rights reserved.

Handout 10-1 (concluded)

United States considerably livelier and healthier than it would otherwise have been. . . .

The individual firm may well find it difficult to live with the regulatory legislation as it is enforced. The legislation is usually rather vague, and its interpretation is left to the regulatory agencies and to the courts. Interpretations can and do shift as new faces appear on the regulatory commissions and on the courts of law. The absence of clear, reasonable, and consistent guidelines in the antitrust area, for example, is a continuing problem for the individual firm, although the complexity . . . of individual situations [prevents] significant departures from the case-by-case approach.

Economists evaluate the state of competition in the market by looking at the conduct and performance of market structure. . . . [E]xamination of the conduct and performance of . . . individual [manufacturing] industries suggests to many that . . . [their] markets are, in a sense, highly "competitive." Although economic concentration . . . [may be] high in them, they exhibit the innovation and efficiency that one would expect from firms trying to best one another in the market. Anticompetitive behavior is difficult to [discover] and to prove except in [obvious] instances . . . such as the electrical equipment conspiracy of the 1960's.

[A new emphasis in government regulation began in the 1970s: the protection of the consumer. The appointment of a Special Assistant for Consumer Affairs in the Office of the President and the creation of the Consumer Product Safety Commission were notable instances. "Truth-in-packaging" and "truth-in-lending" laws were passed and, among other matters, automobile safety and product warranties came under federal regulation.]

Business commonly responds to the demand for more regulation in consumer markets by contending that competition and the legislation already in effect amply protect the consumer. A retailer or manufacturer who does not satisfy his customers will lose them. This argument assumes, however, that the buying public learns rather quickly which sellers do the better job, yet in many cases the learning process is slow and imperfect.

Given the rapidly growing varieties of goods and services available, the imaginative new marketing techniques, and the increasing technical complexity of consumer goods, consumers will have less time and . . . ability to judge the quality of their purchases. . . . This situation would seem to call for more rule-making by federal agencies in the area of consumer goods and services. If the analysis above is correct, the recent legislation regarding packaging, disclosure of financing charges on consumer purchases, and tire standards is but a [sign] of things to come. The present concern about the welfare of the nation's poor people serves to reinforce the pressures for consumer legislation since poor people are, for a variety of reasons, least able to evaluate properly the purchasing [choices] they face.

[By the beginning of the 1980s a reaction against both particular types of government regulation as well as its pervasiveness in the economic, environmental, and social spheres had begun. In general, the reasons given were either that such regulation raised costs and therefore had inflationary consequences, or added to tax burdens, or created complexity without commensurate benefits, or that there was simply too much government interference in the life of the nation, or that all of the foregoing reasons applied.]

. . . The basic labor legislation of the 1930's, as modified by the Taft-Hartley Act of 1947 and the Landrum-Griffin Act of 1959, seems quite durable. The National [Labor] Relations Board [the Federal agency that supervises labor-management relations] faces a continuing stream of cases . . . and further refinement of acceptable practices can be expected.

. . . Attention will continue to be focused primarily on the wage-determination process as it affects prices and the price level. [If present] conditions of [inflation and/or] high-level employment [persist], employers [who] bargain . . . on an industry-wide basis [will continue to be] able to pass wage increases onto buyers through increases in prices. . . .

Questions

a. What evidence is there in the reading to support the following statement? "Even during the so-called laissez-faire period of our history, the government actually took a very active role in the economy."
b. What was the purpose of the Interstate Commerce Act of 1887?
c. Can you explain what the authors mean by the statement "Government regulation of business in its present pattern probably dates from the passage of the Interstate Commerce Act of 1887"?
d. At the beginning of the last section of the reading the authors indicate that the passage of regulatory laws since the end of World War II ". . . has helped to keep the competitive environment in the United States considerably livelier and healthier than it would otherwise have been. . . ." Do you agree or disagree with this conclusion?

Handout 10-2

QUESTIONS FOR DISCUSSION OF ANTITRUST LEGISLATION

Name _____ Class _____

a. What do you think was the primary objective of the antitrust legislation passed by Congress between 1887 and 1937?
b. Do you think federal government regulation was needed or justified? Why or why not?
c. Freedom, efficiency, equity, stability, and growth are generally cited as major goals of the American economic system. Which of these goals do you think were the bases for federal government economic policy prior to 1887? Which were the bases for the act creating the ICC? The Sherman Antitrust Act? The Clayton Antitrust Act? The Robinson-Patman Act? The Miller-Tydings Act?
d. Several critics of federal government regulatory practices have claimed that the provisions of the Robinson-Patman and the Miller-Tydings acts are inconsistent with the antitrust legislation passed earlier. To what extent do you think this view is justified?

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Handout 10-3

HIGH COURT CONSIDERS WORKERS' RIGHT TO REFUSE DUTIES THEY SEE AS UNSAFE

By URBAN C. LEHNER

WASHINGTON [dateline: Jan. 10, 1980]—As Virgil Deemer and Thomas Cornwall saw it, their employer was asking them to choose between their jobs and their lives when a foreman ordered the two maintenance men to walk out on a wire-mesh screen suspended high above the factory floor.

They chose their lives. In so doing, they touched off an emotional legal battle that in 5½ years has gone from an administrative agency through two lower federal courts and all the way to the Supreme Court. The high court heard arguments in the case yesterday and is expected to issue its decision by July.

On one side is the Labor Department, which sued on behalf of the two workers; on the other side is their employer, Whirlpool Corp. After the two men refused to perform the assigned task because they thought it was dangerous, Whirlpool—which insists the task was safe—suspended them for six hours, docked their pay and issued written reprimands.

The primary question for the high court is whether the Labor Department had the authority to write the regulation that is the basis for the suit. That regulation prohibits employers from disciplining employes who reasonably believe that performing an assigned task will endanger their lives.

A Question of Decency

Though the legal issue is a narrow one and the Labor Department's suit seeks merely to undo the disciplinary actions, both sides consider the case important. For the department, what's at stake is fundamental decency. "A humane and civilized society," the department argues, doesn't require workers to make such choices.

For Whirpool, what's at stake is control of the workplace. Freeing workers to decide for themselves what is unsafe and to reject assignments accordingly, the company argues, opens the door to mischief and abuse. It "invites continuous labor unrest" on the "pretext" of safety concerns, Whirlpool asserts.

The incident that started the battle occurred just before midnight on July 10, 1974, at Whirlpool's Marion, Ohio, appliance plant. Maintenance men Deemer and Cornwall were ordered by their foreman to walk out on a 20-foot-high "guard screen" used to catch items that had fallen from overhead conveyor belts. The plant's maintenance force had the job of removing fallen items from the screen.

About two weeks earlier, a maintenance man had fallen from the screen to his death. Less than a year before, Mr. Cornwall had broken his wrist trying to catch himself when his foot plunged through the screen. With those events in mind, Messrs. Deemer and Cornwall refused the order to walk out on the screen, declaring it unsafe.

"The fact that a man had fallen through the screen and been killed is the strongest possible evidence that it was unsafe and dangerous," said the federal district judge who heard the case.

Whirlpool maintains that the screen was safe. The company argues that repairs had been made following the other employe's fatal fall and notes that the foreman walked out on the screen ahead of Messrs. Deemer and Cornwall to prove its safety. The company also observes that the July 10 incident represented the first and only time that any employe has refused to walk on the screen. Even Messrs. Deemer and Cornwall have walked on the screen since then, Whirlpool says.

Whether the screen was or wasn't safe, both the federal district court and the federal appeals court found that the workers reasonably feared for their lives. So what is primarily before the Supreme Court isn't the factual question of the screen's safety but the legal question of the Labor Department's authority to protect workers in such a situation.

The district court held that the department had overstepped its authority. But a federal appeals court here disagreed; it reversed the district court and upheld the department's authority. The point in controversy is how to interpret the Occupational Safety and Health Act of 1970, the statute that created the department's Occupational Safety and Health Administration, or OSHA.

In that law, Congress passed certain employe rights and provided that a worker couldn't be discharged or discriminated against for exercising

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Handout 10-3 (concluded)

them. The question is whether the right to refuse highly dangerous work was one of the rights Congress established.

Agency's Broad Authority

Both sides agree that this right wasn't listed explicitly. But the Labor Department maintains that, in addition to the rights the law enumerated, "certain other rights exist by necessary implication." The department says it has broad authority under the law to write regulations that carry out the law's fundamental purpose—guaranteeing workers "hazard-free" workplaces.

Whirlpool disagrees. If Congress had wanted to create such a right, it would have done so, the company argues. Moreover, according to Whirlpool's reading of the congressional debates on the law, the legislators considered and rejected a provision similar to the department's regulation.

The department reads the "legislative history" differently. But Whirlpool notes that, in another case involving different parties, a federal appeals court in New Orleans overturned the regulation, stating that "a worker's abuse of the authority afforded under the regulation could disrupt or cripple an employer's business. The legislative history is manifest that Congress feared such a result."

Moreover, Whirlpool argues, Congress provided fearful workers with a remedy: Call OSHA, which then may seek a court order requiring the employer to correct any unsafe conditions.

The department concedes that workers "ordinarily" should call OSHA rather than refuse to work. The department says its regulation applies only when employes lack a "reasonable alternative" because there is "insufficient time" to call OSHA. It notes that both lower courts found that Messrs. Deemer and Cornwall had to make an on-the-spot decision and thus were covered by the regulation.

During yesterday's argument before the Supreme Court, several Justices asked about whether workers who refuse unsafe tasks should lose pay. Whirlpool contends that the Labor Department's regulation essentially allows such workers to strike with pay. The department denies that and says employers should offer such employes "alternative work, if available." But the department doesn't say whether the workers must be paid if alternative work isn't available.

If the department loses and the regulation is struck down, there are other federal laws that will protect some workers under certain circumstances when they refuse a task they consider unsafe. But many workers in other circumstances wouldn't be covered. So both sides in the Whirlpool case regard the department's regulation as important.

So do a number of organizations that filed "friend-of-the-court" briefs. They include the Chamber of Commerce on Whirlpool's side and the AFL-CIO, the United Auto Workers and the American Public Health Association on the Labor Department's side.

Upholding the regulation, say Whirlpool and its allies, would give employes the power to close down operations. Striking it down, says the Labor Department and its supporters, would be "manifestly unfair" to workers, who will then have to choose between their jobs and their lives.

Follow-up

On February 26, 1980, all nine justices of the Supreme Court upheld the Labor Department's position. As reported the next day in the *Wall Street Journal*, the court's decision affirms the authority of the Labor Department "to issue and enforce regulations to police the workplace" under the Occupational Safety and Health Act of 1970. However, the court emphasized that the rule devised by the Labor Department is not for day-to-day use but to close "loopholes in federal law" as it relates to dangerous working conditions. According to the *Journal's* account, "... the worker may refuse to perform a task if he 'reasonably believes' the assignment creates 'imminent risk of death or serious bodily injury' and if there isn't 'sufficient time or opportunity to seek effective redress from his employer or to apprise OSHA of the danger.'"

Questions

a. Discuss the basic dispute between the workers and the company. Discuss the basic legal issue.
b. What was a secondary dispute in the case?
c. What were the legal points at issue when the case went to the Supreme Court?
d. Do you think the Supreme Court decision was correct—in whole? in part? not at all?
e. What do you think may be the economic and other costs to the parties involved and to society as a result of the Supreme Court decision?

Handout 10-4

CHANGING FACE OF RECORD DISTRIBUTION
Cash, Security Lure the Independents

By MARC KIRKEBY

. . . The economics of the record business [is changing]. The independents—companies that do not own their own facility for manufacturing records or distribution system for selling them to retailers—have found their perennial cash-flow problems magnified by increasing competition, spiraling production costs and the growing power of the giant entertainment conglomerates.

Thus what began slowly in recent years as a move toward more secure financial agreements, with a few independent labels assigning their distribution work to the "majors"—a handful of record companies with their own distribution and manufacturing branches—has . . . threatened to become a stampede.

. . . A&M has enjoyed 16 years of success as an "independent" record company. But as of last week, giant RCA Records became A&M's sole distributor and record-presser, an arrangement that has become typical of a dramatic restructuring of the way the burgeoning record and tape industry gets its goods into stores.

The deal with A&M came just a week after RCA signed 20th Century-Fox Records, a smaller but still significant independent, to a similar distribution contract. During 1978, independent distributors also lost such consistently hit-producing companies as United Artists, Jet, Salsoul, DJM and Private Stock to the distribution arms of major record companies.

. . . The steady migration of independent labels to distribution by one of the six majors—CBS, EMI/Capitol, MCA, Polygram, RCA and the Warner-Elektra-Atlantic division of Warner Communications Inc.—represents just one facet of the major companies' snowballing control of the record and tape marketplace.

The vast financial resources of the majors has also tended to give them first crack at new labels. . . . The small-label owner who opts for distribution by a major receives less money per album sold than he would from an independent distributor, but in return he obtains a degree of financial security, almost always including a sizable cash advance against future royalties, that no independent can offer.

As a result, the six majors have achieved a share of the domestic record market that has probably surpassed 85 percent.

. . . There is little question that the larger independent record labels will survive one way or another. But for the independent distributors, who are among the music industry's most colorful entrepreneurs, the future is cloudy. They have none of the vertical integration of a major to buttress finances, and their profits are being squeezed on two sides.

Distributors make their money buying records from independent labels, marking them up in price and reselling them to large retailers and to subdistributors who service the smaller record stores. Competition has pushed [down] to $3.55 or $3.60 the price [an independent] must pay the labels for an album which carries a list price of $7.98. A major, by contrast, pays only about $3.47 per album to the labels it distributes or owns. And because a major's distribution system is primarily a means to an end—and need not necessarily be a large profit center in itself—a major's gross markup is about two percent less than an independent's markup of about 19 percent. . . . The [two percent is a] crucial leeway with which a major can undercut the independent's price to retailers.

Thus, the album that an independent distributor buys at $3.60 must be resold to retailers at about $4.30 (which the independents insist provides them with a bare minimum profit), compared with a major's purchase at $3.47 and sale to retail outlets at about [only] $4.08.

To convince retail accounts to buy his more-expensive records, the independent distributor must have hit records to offer. . . . [T]he hits available to him are becoming fewer as independent labels are bought out by the major record companies with their own distribution networks. Faced with shrinking profit margins and a dwindling number of

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Handout 10-4 (concluded)

labels, the independent distributors know they have reached a crisis.

"I've never seen such upheaval in my life," said Joe Simone, owner of Progress Record Distributing in Cleveland, in response to the A&M-RCA announcement. Mr. Simone has shored up his defenses by broadening the Midwestern territories in which he distributes records. He recently opened an office in Detroit.

Other independent distributors insist they too must expand to survive, but because every big city already has at least one independent distributor based in it, any expansion or increased competition among independents would almost surely put some of them out of business.

"I don't have any doubt in my mind that it's going to happen," said Harvey Korman, owner of Piks Corporation, one of Mr. Simone's competitors. "Instead of two or three in each market, there will be one strong distributor. As a result, the marriage between manufacturer and distributor will get even closer."

Even such expansion moves by the "super independents" might not completely offset the advantages of distribution by the major companies: advantages that are convincing enough to make independent labels sacrifice 10 cents or more per album to go with a major.

Principal among those advantages is the majors' reputation for paying quickly. A hit record does an independent record company little good if it hasn't gotten the money for those sales from its distributors.

A&M is a case in point. Last year the company, which reported nearly $100 million in sales, had just begun building its own branch system, opening a distribution point in southern California, A&M Pacific, and had plans for additional branches. But A&M Pacific had problems with its slow-paying retail accounts almost from the start, and those money woes, coupled with the receivables problem A&M already had with its remaining independent distributors, put the company in a serious cash-flow bind.

An . . . important element of the A&M-RCA pact involves record pressing. A&M will save 3 cents to 4 cents per album by moving its pressing business to RCA from Columbia Records, a division of CBS Inc., which had pressed 80 percent of its discs, and independent Monarch, which had handled the remainder. No independent record distributor could offer such a combined deal. . . . Indeed, independent record labels often use the pressing facilities of the majors—particularly those of Columbia—even if their albums are independently distributed.

. . . Many retailers . . . are wary of the growing power of the few big companies.

"The independent has a stronger motivation to work with people in the marketplace," says Tom Modica, owner of Longhair Music, a record store in Portland, Ore. "With the majors you are just one of the fish in the pond. I'm fearful that things are consolidating so fast around such a small group of executives that those people might really wield an iron fist."

How can independent distributors and labels contend with the majors' strength? As the consolidation trend has accelerated, the majors have been watching the ongoing investigation of the industry by the antitrust division of the Justice Department as a sign that the Federal Government might come to the aid of the independents.

Justice lawyers took testimony from dozens of record company executives, distributors and retailers in Los Angeles in late 1977, and the investigation is "still open," according to a Justice spokesman, who would not comment further.

Questions

1. Based on the reading, what is the economic argument that supports consolidation in the record industry?
2. What is the economic argument against consolidation?
3. Assign some groups to represent the Antitrust Division of the Justice Department arguing on the side of the independents, and assign others to represent large record companies. Have members of each type of group marshal all the arguments that support their positions and those that can be used to attack the positions of their opponents. Review the results with the class as a whole.

Lesson 11: The Hoover Administration: Role of Government in the Economy

TIME REQUIRED: Two or three class periods

RECOMMENDED GRADE LEVEL: 11–12

CONCEPTS: Economic growth and stability
Monetary policy
Fiscal policy
Unemployment
Aggregate demand
Aggregate supply
Productive capacity

Instructional Objectives: Students will

- Summarize President Hoover's economic philosophy and principles;
- Describe how his philosophy and principles affected the measures taken by his administration to combat the oncoming depression;
- Evaluate the effectiveness of actions taken by the Hoover administration in relation to the economic problems of the time.

Rationale: Herbert C. Hoover, who was president of the United States before and during the onset of the Great Depression, has often been blamed for running a "do-nothing" administration in those critical years. Hoover's policies and views, however, were not as do-nothing (laissez-faire) as so often claimed. In his own way, he did try to stem the onslaught and effects of the depression. Whether he did what the situation required is the real question. In any case, a look at Hoover's views and actions will provide students with information they will need to study the depression itself in the next lesson. The beginning of Handout 11-1 contains some material about the early 1920s and Hoover's activities in those years. It can serve as background about both the economy and Hoover's views before he was elected president in 1928.

Materials: One copy each of handouts 11-1, 11-2, and 11-3 for every student.

Procedure:

1. Have students read and discuss Handout 11-1 on President Hoover and his administration. This reading should be supplemented with relevant portions of their U.S. history text. (Tell students to save Handout 11-1 to use in Lesson 12)
2. Distribute Handout 11-2. Have students refer to Part I of the handout. Assign roles as follows: Designate four students as farmers and four as small-business owners; designate half the remaining members of the class as employed workers and the other half as unemployed. Instruct students to write their assigned role in the blank on the handout. After role assignments have been written in, allow time for students to read Part I. Explain that they will be asked to discuss the economic implications of the chronology of events that makes up Part II of the handout.
3. Ask if there are any questions about assigned tasks. At this point questions will probably arise concerning the economic concepts listed in the instructions as part of the equipment of "intelligent and knowledgeable citizens."
4. Distribute Handout 11-3. Make sure that the students understand the economic concepts defined in the handout.
5. To help students establish their roles as farmers, unemployed workers, etc., *in the early 1930s*, have them suggest how their perspectives on their lives and their futures might have changed since the stock market crash and the onset of the depression.
6. Either in class or as an overnight assignment have students complete Part II of the handout. They can do so alone or by working in pairs—e.g., two farmers, two employed workers, etc.
7. Have students discuss their responses to individual items, noting and suggesting reasons for their differences of opinion.

Evaluation: Based on the various government actions proposed and those that were carried out, what do students think were the major goals of the economic policies employed by the Hoover administration from 1930 to 1932? Did the administration's policies have the effects intended? (The answer to the first question on policy goals—as indicated in item 14 on Handout 11-2 includes balancing the federal budget, strengthing agriculture, and stimulating business through the expansion of commercial credit. There is more detail on the subject in Handout 11-1. Answers to the second question are open-ended. Students will have different opinions about and reasons why policies were or were not successful.)

Handout 11-1

THE ORDEAL OF HERBERT HOOVER

by Carl N. Degler

Today . . . there are two Hoovers. The first is the living man, the former President who . . . unstintingly and very capably served Democratic and Republican Administrations alike. . . . That conception bears almost no relation to the second, the historical Hoover. In the history books his Administration is usually depicted as cold-hearted, when not pictured as totally devoid of heart, inept, or actionless in the face of the Great Depression. . . .

The notion of two Hoovers should never have grown up; his life and views were too consistent for that. . . .

[T]hose principles to which Hoover held so consistently [were not] simply conservative ones. . . .

Hoover's principles were distinctly and publicly progressive. In 1920, for example, he defended the principle of collective bargaining and the right to strike—two very unpopular principles at that date—before a frosty Chamber of Commerce in Boston. As Secretary of Commerce in the Harding Administration he opposed the sweeping federal injunction against the railroad strikers and worked with Harding to have the steel industry abandon the twelve-hour day. In his book of guiding principles, *American Individualism,* which he published in 1922, he was careful to distinguish his views from laissez-faire capitalism. The American way, he insisted, "is not capitalism, or socialism, or syndicalism, nor a cross breed of them." It did include, though, government regulation in order to preserve equality of opportunity and individual rights. "This regulation is itself," he pointed out, "proof that we have gone a long way toward the abandonment of the 'capitalism' of Adam Smith. . . ." While Secretary of Commerce in the 1920's he instituted much needed regulations for the burgeoning radio and airplane industries. It was Herbert Hoover who said in 1922 at the first conference on radio that "the ether is a public medium and its use must be for the public benefit. The use of radio channels is justified only if there is public benefit. The dominant element of consideration in the radio field is, and always will be, the great body of the listening public, millions in number, country-wide in distribution." In the same address, he said, "It is inconceivable that we should allow so great a possibility for service to be drowned in advertising chatter." In 1928 he was recommending that a three billion dollar reserve of public works be built up to serve as an economic stabilizer in times of recession.

In short, though he served both [Presidents] Harding and Coolidge, Herbert Hoover was not of their stripe. . . .

Hoover's record as president contains a number of truly progressive achievements. Although he cannot take credit for initiating the Norris-La Guardia Act of 1932, the fact remains that one of the most important pro-labor acts in the whole history of American labor was signed by Herbert Hoover. Like other progressives, he sponsored legislation for conservation like the giant Boulder Dam project and the St. Lawrence Seaway.

But perhaps the most striking example of Hoover's willingness to recognize the new role of government in dealing with the complexities of an industrial economy was his breaking precedent to grapple directly with the Depression. From the outset Hoover rejected the advice of his Secretary of the Treasury, Andrew Mellon, who, as Hoover himself said, was a country banker of narrow social vision. Mellon believed the crash should be permitted to run its course unmolested. His simple formula in a depression, as he told Hoover, was "Liquidate labor, liquidate stocks, liquidate farms, liquidate real estate." A panic, he told the President, was not so bad. "It will purge the rottenness out of the system. High costs of living and high living will come down. People will work harder, live more moral lives. Values will be adjusted, and enterprising people will pick up the wrecks from less competent people."

In contrast, Hoover's anti-depression action was swift in coming. Within a matter of weeks after the great crash of the stock market at the end of October, Hoover called a meeting of prominent business, labor, and farm leaders to work out plans for preventing the market crash from adversely affecting the rest of the economy. A week later he met for the same purpose with railway presidents. The economic leaders agreed to his plan of holding the line

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on wages and encouraging industrial expansion. In his annual message to Congress in December 1929, Hoover proudly told of these and other efforts his Administration had made to stem the economic decline. These efforts, he said, "must be vigorously pursued until normal conditions are restored." In January he continued to expand public works on Boulder Dam and on highway construction. By the end of July 1930, the Administration had got underway $800 million in public works, and the President called upon the states and local units of government to follow the national government's example in order to provide as much employment as possible.

The President was well aware of the unprecedented character of his swift anti-depression action. . . . The country, he said, had avoided the dole and other unsatisfactory devices to meet unemployment by "voluntary cooperation of industry with the Government in maintaining wages against reductions, and the intensification of construction work. Thereby we have inaugurated one of the greatest economic experiments in history on a basis of nation-wide cooperation not charity."

At first Hoover was optimistic about the effects of his program. Several times during the first year he compared the economic decline with that of 1921-22, usually with the observation that the earlier one was the more difficult. As he told the Chamber of Commerce in May 1930, the amount of public works contracted for was already three times the amount in the corresponding period of the previous "great depression."

Yet his optimism did not keep him from action. One thing he emphasized was the necessity of learning from this Depression about the prevention of future ones. He advocated better statistical measures and reform of the banking structure to prevent the drain of credit from productive to speculative enterprise, such as had led to the stock market boom and crash. Moreover, although he emphasized from the beginning that the Depression was "worldwide" and that its "causes and its effects lie only partly in the United States," he did not use this as an excuse for inactivity. There was no need simply to wait for the rest of the world to recover, he said. "We can make a very large degree of recovery independently of what may happen elsewhere." In October 1930 he told the American Bankers Association that depressions were not simply to be borne uncomplainingly. "The economic fatalist believes that these crises are inevitable and bound to be recurrent. I would remind these pessimists that exactly the same thing was once said of typhoid, cholera, and smallpox." But instead of being pessimistic, medical science went to work and conquered those diseases. "That should be our attitude toward these economic pestilences. They are not dispensations of Providence. I am confident in the faith that their control, so far as the cause lies within our own boundaries, is within the genius of modern business."

Hoover also told the bankers that he could not condone the argument which had been reported from some of them that the people would have to accept a lower standard of living in order to get through the Depression. Such a suggestion, he said, could not be countenanced either on idealistic or on practical grounds. To accept it would mean a "retreat into perpetual unemployment and the acceptance of a cesspool of poverty for some large part of our people." Several times during the Depression Hoover made it clear that the government had a responsibility to employ as many as possible as its contribution to the mitigation of the unemployment which was growing alarmingly. . . .

Unlike previous administrations . . . his had expanded, instead of curtailing, public works during a depression. Public works expenditures, both by the federal and state governments . . . continued to increase. Some two billion dollars were being spent, and a million men were employed on these projects. Aid was also being given to farmers in the drought areas of the South and the Middle West.

That Hoover truly favored action over patient waiting for the storm to lift was further shown in his elaborate twelve-point program for recovery presented in his annual message in December 1931. Among his recommendations was the Reconstruction Finance Corporation, which would become one of the major agencies of his Administration and of the New Deal for stabilizing banks and aiding recovery. At a press conference the same month he emphasized anew the desirability of domestic action. "The major steps we must take are domestic. The action needed is in the home field and it is urgent. While reestablishment of stability abroad is helpful to us and to the world, and I am convinced that it is in progress, yet we must depend upon ourselves. If we devote ourselves to these urgent domestic questions we can make a very large measure of recovery irrespective of foreign influences." By early February 1932 the Reconstruction Finance Corporation was in operation. That same month he

persuaded the Congress to enact the Glass-Steagall banking bill, which increased the bases for Federal Reserve bank reserves and thus expanded credit and conserved gold. The purpose of the RFC was to shore up failing banks and other financial institutions caught in runs upon their deposits. With the permission of the Interstate Commerce Commission, the RFC could also extend financial aid to railroads.

Beyond these operations, though, the President would not let the lending agency go. Especially did he resist federal aid to the unemployed, although the demands for it were growing monthly. He even opposed Congressional appropriations to the Red Cross on the ground that they would dry up private sources of relief funds. A dole, he said in 1931, must be avoided at all costs because "the net results of governmental doles are to lower wages toward the bare subsistence level and to endow the slacker." He did urge the citizenry generously to support, as he did himself, private charities, like the Red Cross, which were carrying so much of the burden of unemployment relief. At no time, of course, did Hoover object to helping the unemployed; he was no Social Darwinist arguing for the survival of only the fittest. Again and again, using the most idealistic language, he called upon Americans to extend a hand to those fellow citizens in need. But as much as he publicly and privately deplored the suffering which the economic crisis brought, he feared and deplored even more the effects which would be sure to follow if the federal government provided relief to the unemployed. Nowhere was the rigidity of Hoover's highly trained, agile, and well-stocked intellect more apparent than in this matter. Throughout his years as president, despite the cruelest of sarcastic barbs in the press and from the public platform, he held to his postion. . . .

By May 1932, though, the pressure for some federal assistance in relief matters was building up fast. The National Conference of Social Workers, which in the previous year had refused to endorse the principle of federal relief, now switched to supporting it. More important from Hoover's standpoint was the announcement by Senator Joseph Robinson, the conservative Democratic leader in the Senate, that he was joining the liberals in favoring federal relief. Within two days the President announced, after consultation with Robinson, that the RFC would hereafter lend money to the states if their resources for relief were exhausted. The next day the President defended the extraordinary powers of the RFC as necessitated by the economic emergency. In words which sound in retrospect like those of his successor, he said, "We used such emergency powers to win the war; we can use them to fight the depression, the misery and suffering from which are equally great."

Soon thereafter, though, the President demonstrated that he would not take another step toward putting the federal government into the relief field. Two bills by Democrats which went beyond his limits were successfully vetoed. After Congress had adjourned in July 1932, he issued a nine-point program for economic recovery, but most of the items on it were old and the rest were only recommendations for exploratory conferences. By the summer of 1932, then, the Hoover program for recovery had been completed; his principles would permit him to go no further.

As one reviews the actions which Hoover took it is impossible to describe him as a do-nothing president. He was unquestionably one of the truly activist presidents of our history. But he was an activist within a very rigid framework of ideology. Of all American presidents, Herbert Hoover was probably the most singlemindedly committed to a system of beliefs. . . . It was . . . [his] belief in individual freedom and cooperation which kept him from accepting a governmental system of old age and unemployment insurance. He advocated such measures only when undertaken voluntarily and through private insurance companies.

Even the Reconstruction Finance Corporation, perhaps his most enduring anti-depression agency, was created to assist private business, not to supplant it. True, it was a credit agency in competition with private enterprise, but it was designed to perform tasks which no private institution dared risk; the competition was therefore minimal if not nonexistent. Moreover, although it has been frequently alleged that the RFC lent money to corporations while the Administration denied relief to the unemployed, in Hoover's mind the distinction was crucial and real. The RFC was making loans which would be repaid—and most were—when the banks got back on their feet; it was not making grants. Even when Hoover did permit the RFC to lend money to the states for relief purposes he still insisted that no grants of federal funds be made.

But there was an even more important social justification for agencies like the RFC and the Federal Home Loan Board, which Congress created

Handout 11-1 (concluded)

In July 1932 at the President's request. Hoover recognized as no president had before that the welfare of society was dependent upon business and that government, therefore, must step in. He did this, not because, as some critics said, he favored business over the common people, but because he recognized that if the banks failed the economy would collapse, savings would be lost, and jobs destroyed. The RFC and the Federal Home Loan Board, in effect, socialized the losses of financial institutions by using government to spread their obligations through society. Hoover was not prepared, though, to socialize the losses of the unemployed. That step in ameliorating the impact of the Depression was undertaken by the New Deal through the WPA and other relief agencies. In this respect Hoover was a transitional figure in the development of the government as an active force in the economy in times of depression. He was the first to smash the old shibboleth of government unconcern and impotence.

Handout 11-2

JOHN AND MARY Q. PUBLIC, 1930-32

PART I

Imagine that the year is 1930 and you are a(n) _____

Since you are an intelligent and knowledgeable citizen, you are of course familiar with the following economic concepts:

Aggregate supply
Aggregate demand
Economic growth
Monetary policy
Fiscal policy

Your reading of the daily newspapers along with your knowledge of economics make you keenly aware of the many factors underlying the current economic decline.

PART II

Read the following chronology of the Hoover administration's attempts to grapple with the problems brought on by the depression. Keeping in mind the role you have been assigned, read the chronology carefully and decide how you as an intelligent and knowledgeable citizen would have reacted to each item. Try to imagine how the events would affect your ability to make a living, your hopes for the future, your present fears. In the space at the left of each item, mark a plus (+) for those events, proposals, or actions you think would have improved economic conditions and a minus (−) for those you think would have made them worse.

The Hoover Administration Faces the Depression

____ 1. June 17, 1930. President Herbert C. Hoover signed the Smoot-Hawley Tariff Act, culminating a period of tariff-raising that left U.S. tariffs at their highest level in history. The result was to help throttle world trade and to encourage other countries to engage in protectionism. (Protectionism is the attempt to block imports from abroad in order to protect the markets of domestic producers of the same goods.)

____ 2. December 2, 1930. In his annual message to the nation, President Hoover asked Congress to appropriate $100 million to $150 million to accelerate existing public works programs.

____ 3. December 18, 1930. President Hoover appointed a committee to study the nation's economic problems and submit plans for stimulating employment. Colonel Arthur Wood, a former police commissioner of the city of New York, was appointed chairman of the committee. Colonel Wood said he saw his job as one that involved encouraging local responsibility for unemployment relief. He planned to appeal to Americans to "spruce up" their homes to provide odd jobs for the unemployed. He urged hospitals and universities to take advantage of low building costs by expanding their facilities. He hoped to "lift the spirits" of Americans and rebuild their confidence in the American economy.

____ 4. December 19, 1930. Congress passed a bill to appropriate $45 million to compensate farmers whose crops were lost as the result of drought. The money was intended for the purchase of seeds for planting and feed for animals. The appropriation did not include funds to alleviate the personal distress of farmers who suffered a grave reduction of income due to the drought.

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Handout 11-2 (concluded)

____ 5. August 19, 1931. President Hoover appointed a new committee headed by Walter S. Gifford, president of the American Telephone and Telegraph Company, to encourage local and state efforts to provide relief to the unemployed. The committee function was to help organize and publicize local fund-raising campaigns and to act as consultants to local communities.

____ 6. October 16, 1931. The White House announced that President Hoover would appear on a "star-studded," coast-to-coast radio broadcast, urging people to give to their local welfare funds.

____ 7. October 23, 1931. Secretary of the Treasury Andrew W. Mellon recommended that taxes on luxuries and semiluxuries be increased to pay for part of the anticipated $3 billion budget deficit.

____ 8. December 28, 1931. Hearings began on the Costigan and LaFollette relief bills. Both bills asked for $375 million to be granted to states for unemployment relief. A parade of social workers testified. Karl de Schweinitz, secretary of the Community Council of Philadelphia took the stand and stated that Philadelphians are practically starving, depending for survival on such things as stale bread and discards from vegetable stands. (The Costigan and LaFollette bills were combined and voted favorably out of committee. The combined bill was voted on by the full Senate on February 16 and defeated by a vote of 48 to 35.)

____ 9. January 5, 1932. The Senate Banking and Currency Committee voted favorably on a bill appropriating $500 million to establish the Reconstruction Finance Corporation. The corporation, owned by the federal government, extended loans to railroads and to banks, insurance companies, and other financial institutions. (The bill was passed by Congress and approved by the President before the end of the month.)

____10. February 7, 1932. Secretary of the Treasury Ogden L. Mills urged bankers to extend credit more readily. He accused bankers of "acting selfishly" and of being responsible for the continuation of the depression.

____11. April 30, 1932. President Hoover appointed a commission to study and recommend ways of slashing government expenditures to save $200 million to help balance the country's budget.

____12. May 11, 1932. Congress was asked to authorize the Reconstruction Finance Corporation to create a fund from which cities and states could draw loans to assist in local relief work where pressing needs existed and other resources were not available. (The Emergency Relief and Construction Act of 1932, which authorized the RFC to make such loans, was passed on July 16, 1932, and became law as soon as it was signed by the President on July 21; $300 million was set aside for loans.)

____13. May 20, 1932. President Hoover called on all Federal Reserve Banks to help create a nationwide network of banker-business committees dedicated to "stiring up stagnant credit pools" and stimulating business loans.

____14. May 22, 1932. President Hoover attacked Speaker of the House John Nance Garner's proposal that a $1 billion bond issue be sold to finance a huge public works program that would create jobs and relieve unemployment. The President claimed that such a program almost certainly included public works of little usefulness. He stated that, in his opinion, the goal of the federal government should be to balance the budget, continue the work of the Reconstruction Finance Corporation, expand commercial credit through the Federal Reserve System, and strengthen agriculture.

____15. June 24, 1932. The Senate approved distribution of 50 million bushels of government-owned wheat by the Red Cross in areas of heavy unemployment.

____16. November 8, 1932. Franklin D. Roosevelt was elected President of the United States. He won over 57 percent of the popular vote and carried the electoral college 472 to 59. (The new President took office in March 1933.)

Handout 11-3

ECONOMIC CONCEPTS FOR JOHN AND MARY Q. PUBLIC

Aggregate Supply and Productive Capacity

AGGREGATE SUPPLY is the total amount of goods and services an economy produces, and it is largely determined by aggregate demand (below). When it is fully used, the economy's productive capacity is substantially fixed at any moment of time, but it can grow over time with increases in the labor force, improved education and training of workers, more saving and capital investment, discovery of new resources, and technological advances.

Aggregate Demand: Unemployment and Inflation

AGGREGATE DEMAND is the sum of spending on goods and services in any time period by individuals, households, businesses, and governments. When aggregate demand falls seriously short of what the economy is capable of producing at full employment, and wage rates are relatively inflexible, **UNEMPLOYMENT** and recession or depression will result. When aggregate demand is greater than aggregate supply at full employment, **INFLATION** results. Keeping aggregate demand roughly equal to full-employment aggregate supply is one key to maintaining a full-employment economy without serious inflation or unemployment. Thus, in analyzing aggregate demand, it is important to study the basic forces controlling spending by households, business, and governments.

Some unemployment occurs for reasons in addition to inadequate aggregate demand. Some people lack the skills or education to fill jobs even when aggregate demand is high. Other people reside in depressed areas where job opportunities are limited. And some people are the victims of discrimination in employment. This means that a variety of policies is needed to deal with unemployment.

Money and Monetary Policy

The government has two major ways—**MONETARY POLICY** and **FISCAL POLICY**—of trying to keep the level of aggregate demand roughly in balance with the growing productive capacity of the nation. Monetary policy seeks to affect the amount of money in existence and its cost (interest rates). This is the responsibility of the Federal Reserve System, a quasi-independent government agency.

The simplest definition of money is that it is the sum of currency (cash) and demand deposits (checking accounts) in banks. Currency is printed or coined by the government but the bulk of the nation's money supply, demand deposits, is created by the banking system. The banking system increases the money supply by making loans to individuals, businesses, and the government. This lending creates more demand deposits and thus increases the spending power of the economic units which make up aggregate demand.

Fiscal Policy: Taxes, Expenditures, and Transfers

FISCAL POLICY consists of changes in taxes, government expenditures on goods and services, and transfer payments to control the level of aggregate demand. Generally, when the government increases spending on goods and services or on transfer payments but does not correspondingly increase tax receipts, the resulting budget *deficit* will stimulate total aggregate demand and push the economy toward more employment or inflation. Conversely, when government reduces expenditures without reducing tax receipts, the resulting budget *surplus* will reduce aggregate demand and push the economy toward less employment or less inflation. Similar effects can be obtained by cutting or increasing tax receipts, with government expenditures being held constant.

Government purchases of goods and services provide jobs directly. Transfer payments (unemployment insurance, social security payments, and the like) change recipients' incomes but do not directly provide jobs or use up productive resources.

Economic Growth

ECONOMIC GROWTH is generally defined as the increase over an extended period of the total production of the economy and output per person. If a growing population is to be able to consume more goods and services, more must be produced. Economic growth also creates jobs for our growing labor force. . . . If the economy does not grow, then one person or group can have more only if another person or group receives less.

From *Master Curriculum Guides in Economics for the Nation's Schools, Part I, A Framework for Teaching Economics: Basic Concepts* (New York: Joint Council on Economic Education, 1978), pp. 19-23.

Lesson 12: The Great Depression and After: Role of Government in the Economy

TIME REQUIRED: Three or four class periods

RECOMMENDED GRADE LEVEL: 11–12

CONCEPTS: Economic growth and stability
Monetary policy
Fiscal policy
Unemployment
Aggregate demand
Aggregate supply
Productive capacity

Instructional Objectives: Students will

- List the major economic problems facing the U.S. economy as a result of the Great Depression;
- Describe policy recommendations to overcome the Great Depression made by economists representing different schools of thought;
- Formulate a set of policy recommendations for reversing a national economic decline.

Rationale: The Great Depression and its aftermath provide an excellent framework for students to examine the methods used by governments in developed countries to maintain economic stability and to stimulate economic growth. Although this lesson deals specifically with the severe economic decline of the 1930s, it provides a foundation for student understanding of policies—fiscal, monetary, and other—available to governments to combat reduced economic activity in the form of depressions and recessions, and of the effects of such policies.

Before the 1970s, of course, periods of reduced economic activity were usually associated with deflation, i.e., falling prices. Beginning with the 1970s, reduced economic activity has usually been accompanied by *inflation*, an unprecedented situation for which the appropriate policy measures have been under dispute.

Materials: One copy each of handouts 12-1, 12-2, 12-3, and 12-4 for every student.

Procedure:

1. Distribute handouts 12-1, 12-2, and 12-3. Divide the class into groups of five or six students each and give them the following instructions:

   Imagine that it is now March 1933. Your group has been appointed to serve as an economic advisory committee to the new President. As members of President Franklin D. Roosevelt's "Brain Trust" your task is to draft proposals to combat the depression. You should state the specific actions—governmental or other—you think should be adopted and explain how they will help reverse the economic decline. To help you make your decisions you should read Handout 12-1 and review the information provided on handouts 12-2 and 12-3. You should also take another look at Handout 11-1.

   NOTE: These activities may require two or three class periods. If time permits you may wish to have the group proposals duplicated and distributed to the entire class for discussion in a mock Congress. The objective would be to have the class formulate a single set of recommendations on which the majority of the students could agree.
2. Have students read Handout 12-4 and then answer the questions in class discussion.

Evaluation: Have students describe three important policies or acts of the Roosevelt administration, which began in 1933. After each description they are to explain the impact of the policy or act on our economic system.

Handout 12-1

THE SPECULATIVE BOOM

In October, 1929, the bottom fell out of the New York Stock Exchange—and with it the U.S. economy. The depression ushered in by this crash was not America's first—instability had long pingued the economy—but it was the worst. Before it ended in 1941, the Great Depression and the government programs established to cope with its causes and consequences, had fundamentally altered the face of the American market system. The philosophy of "laissez faire" (Government hands-off) was all but dead; and a new era of mixed capitalism began—one marked by a greatly increased economic role for the government.

The Boom 20's: Everyone Could Get Rich

. . . . In 1926, the Big Bull Market in common stocks began. It really got under way in 1927, went into high gear in 1928, and after a series of convulsive setbacks rose to its majestic climax in September, 1929.

Just how many people were speculating in stocks during those wild years is unknown, but probably a million or so were buying on margin—putting up only a fraction of the price of the stocks they bought—and a million or two more, though they were paying cash in full for their purchases, were following the stock-market quotations in the financial pages with almost equally rapt attention. Not only were financiers and businessmen of high and low degree speculating, but housewives, ranchers, stenographers, clergymen, elevator men—whoever could lay hands on some cash to put into General Motors or Radio common or Monty Ward or Case Threshing or Electric Bond & Share. The story is told of a young man who went to a financier for advice on how to get a business education and was told to buy such-and-such a stock and watch what happened to it; a couple of weeks later he came back to the financier agog: "How long has this been going on?" he asked in bewildered rapture. During most of 1928 and 1929 buying stocks was like betting at a race track at which, fantastically, most of the horses won. Prices climbed and climbed and climbed. The Standard Statistics index of common stock prices averaged 100 during the year 1926; by June, 1927, it had reached 114; by June, 1928, it had got to 148; by June, 1929, to 191; and by September, 1929, to the dizzy height of 216!

As prices soared, some of the current wise men said [prices] had reached a permanent plateau; this was a New Era. Others advanced the bright idea that presently the whole nation would enrich itself by owning common stocks. Still others said that what was happening was a wild gamble, and a lot of people would surely lose their shirts, but a crash wouldn't matter much otherwise; after the smoke had cleared away, things would hum along as before. What they did not realize was that the speculative market had now become so huge that the mechanisms that were supposed to make it self-regulating—the automatic selling out of unlucky buyers, for example, which was supposed to cause a drop in prices which would invite new buyers—would become mechanisms for compounding disaster; and that such a large part of American business was geared to these inflated values that the repercussions of a crash would shake the whole economy.

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Handout 12-2

THE UNDERLYING CAUSES OF THE DEPRESSION

As already so often emphasized, the collapse in the stock market in the autumn of 1929 was [caused by] the speculation that went before. . . . Sometime, sooner or later, confidence . . . would weaken. When this happened, some people would sell, and this would destroy the reality of increasing values. Holding for an increase would now become meaningless; the new reality would be falling prices. There would be a rush, pellmell, to unload. This was the way past speculative orgies had ended. It was the way the end came in 1929.

It is easier to account for the boom and crash in the market than to explain their bearing on the depression which followed. The causes of the Great Depression are still far from certain.

What . . . are the . . . causes of the depression? The task of answering can be simplified somewhat by dividing the problem into two parts. First there is the question of why economic activity turned down in 1929. Second there is the vastly more important question of why, having started down, on this unhappy occasion it went down and down and down and remained low for a full decade.

. . . The Federal Reserve indexes of industrial activity and of factory production, the most comprehensive monthly measures of economic activity then available, reached a peak in June. They then turned down and continued to decline throughout the rest of the year. . . . The economy had weakened in the early summer well before the crash.

This weakening can be variously explained. Production of industrial products, for the moment, had outrun consumer and investment demand for them. The most likely reason is that business concerns, in the . . . enthusiasm of good times, misjudged the prospective increase in demand and acquired larger inventories than they later found they needed. As a result they curtailed their buying, and this led to a cutback in production. In short, the summer of 1929 marked the beginning of the familiar inventory recession.

Also there is a chance . . . that more deep-seated factors were at work and made themselves seriously evident for the first time during that summer. Throughout the twenties production and productivity per worker grew steadily: between 1919 and 1929, output per worker in manufacturing industries increased by about 43 per cent. Wages, salaries, and prices all remained comparatively stable, or in any case underwent no comparable increase. Accordingly, costs fell and with prices the same, profits increased. These profits sustained the spending of the well-to-do, and they also nourished at least some of the . . . stock market boom. Most of all they encouraged a very high level of capital investment. During the twenties, the production of capital goods increased at an average annual rate of 6.4 per cent a year; non-durable consumers' goods, a category which includes such objects of mass consumption as food and clothing, increased at a rate of only 2.8 per cent. (The rate of increase for durable consumers' goods such as cars, dwellings, home furnishings, and the like, much of it representing expenditures of the well-off to well-to-do, was 5.9 per cent.) A large and increasing investment in capital goods was, in other words, a principal device by which the profits were being spent. It follows that anything that interrupted the investment outlays—anything, indeed, which kept them from showing the necessary rate of increase—could cause trouble. When this occurred, compensation through an increase in consumer spending could not automatically be expected. The effect, therefore, of insufficient investment—investment that failed to keep pace with the steady increase in profits—could be falling total demand reflected in turn in falling orders and output. . . .

There seems little question that in 1929, modifying a famous cliche, the economy was fundamentally unsound. This is a circumstance of first-rate importance. Many things were wrong but [these] weaknesses seem to have had an especially [strong] bearing on the . . . disaster. . . .

1) The bad distribution of income. In 1929 the rich were [very] rich. . . . It seems certain that the 5 per cent of the population with the highest incomes in that year received approximately one third of all personal income. The proportion of personal income received in the form of interest, dividends, and rent—the income, broadly speaking, of the

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well-to-do—was about twice as great as in the years following the Second World War.

This highly unequal income distribution meant that the economy was dependent on a high level of investment or a high level of luxury consumer spending or both. The rich cannot buy great quantities of bread. If they are to dispose of what they receive it must be on luxuries or by way of investment in new plants and new projects. Both investment and luxury spending are subject, inevitably, to more erratic influences and to wider fluctuations than the bread and rent outlays of the $25-a-week workman. This high-bracket spending and investment was especially [vulnerable] to the crushing news from the stock market in October of 1929.

2) The bad corporate structure. . . . American enterprise in the twenties had opened its . . . arms to an exceptional number of promoters, grafters, swindlers, impostors, and frauds. This, in the long history of such activities, was a kind of flood tide of corporate larceny.

The most important corporate weakness was . . . the vast new structure of holding companies and investment trusts. The holding companies controlled large segments of the utility, railroad, and entertainment business. Here, as with the investment trusts, was the constant danger of devastation by reverse leverage. In particular, dividends from the operating companies paid the interest on the bonds of upstream holding companies. The interruption of the dividents meant default on the bonds, bankruptcy, and the collapse of the structure. Under these circumstances, the temptation to curtail investment in operating plant in order to continue dividends was . . . strong. This added to deflationary pressures. The latter, in turn, curtailed earnings and helped bring down the corporate pyramids.

3) The bad banking structure. Although the bankers were not unusually foolish in 1929, the banking structure was . . . weak. The weakness was . . . in the large numbers of independent units. When one bank failed, the assets of others were frozen while depositors elsewhere had a . . . warning to go and ask for their money. Thus one failure led to other failures, and these spread with a domino effect. Even in the best of times local misfortune or isolated mismanagement could start such a chain reaction. (In the first six months of 1929, 346 banks failed in various parts of the country with [total] deposits of nearly $115 million.) When income, employment, and values fell as the result of a depression bank failures could quickly become epidemic. This happened after 1929. Again it would be hard to imagine a better arrangement for magnifying the effects of fear. The weak destroyed not only the other weak, but weakened the strong. People everywhere, rich and poor, were made aware of the disaster by the persuasive intelligence that their savings had been destroyed.

4) The [doubtful] state of . . . foreign [trade]. This is a familiar story. During the First World War, the United States became a creditor on international account. In the decade following, the surplus of exports over imports which . . . [before World War I] had paid the interest and principal on loans from Europe continued. The high tariffs [of the United States], which restricted imports and helped to create this surplus of exports remained. Other countries which were buying more than they sold, and had debt payments to make [to the United States] in addition, had somehow to find the means for making up the deficit in their transactions with the United States.

During most of the twenties the difference was covered by cash—i.e., gold payments to the United States—and by new private loans by the United States to other countries. Most of the loans were to governments—national, state, or municipal bodies—and a large proportion were to Germany and Central and South America. The underwriters' margins in handling these loans were generous; the public took them up with enthusiasm; competition for the business was keen. If unfortunately corruption and bribery were required as competitive instruments, these were used.

Countries could not cover their adverse trade balance with the United States with increased payments of gold, at least not for long. This meant that they had either to increase their exports to the United States or reduce their imports or default on their past loans. President Hoover and the Congress moved promptly to eliminate the first possibility—that the accounts would be balanced by larger imports—by sharply increasing the tariff. Accordingly, debts, including war debts, went into default and there was a [sharp] fall in American exports. The reduction was not vast in relation to total output of the American economy, but it contributed to the general distress and was especially hard on farmers.

Comment

The foregoing portion from Galbraith emphasizes a view of the causes of the Great Depression that is widely held among economists. But an important school of economists, the monetarists, believes that the most important cause of the Great Depression was the series of errors made by the Federal Reserve Board in using its powers over the money supply of the United States. These errors, they maintain, not only acted to slow down economic activity, but also were a basic cause of the large number of bank failures that occurred in this period.

Milton Friedman is the outstanding monetarist of recent times, and with his colleague, Anna Schwartz, pointed out that no other recession or depression before or since the Great Depression has been preceded by such a long period over which the money stock, i.e., the supply of money, failed to rise. Monetary behavior during the Great Depression itself is even more striking. The one-third contraction in the amount of money was more than triple the largest preceding declines in 1875 to 1879 and from 1920 to 1921.

They vividly described the results as follows:[1]

> . . . More than one-fifth of the commercial banks in the United States, holding nearly one-tenth of the volume of deposits at the beginning of the contraction, suspended operations because of financial difficulties. Voluntary liquidations, mergers, and consolidations added to the toll, so that the number of commercial banks fell by well over one-third. The Great Depression was capped by banking holidays in many states in early 1933 and by a nationwide banking holiday that extended from Monday, March 6, until Monday, March 13, and closed not only all commercial banks but also the Federal Reserve Banks. There was no precedent in U.S. history of a concerted closing of all banks for so extended a period over the entire country.

Here is a summary and appraisal of Friedman and Schwartz's views on the significance of the Federal Reserve's policies during 1929-32:[2]

> Friedman and Schwartz attribute the length and depth of the Depression to the failures of the Federal Reserve System. Instead of undertaking a massive expansion of the money supply, the Federal Reserve permitted the money supply to contract by 33 percent during the 1929-1933 period. . . .
>
> The Federal Reserve expanded the supply of . . . money beginning in late 1930, but the increase was too little and too late.
>
> The Federal Reserve did not begin large-scale open market operations to expand the money supply until early 1932, and by that time the damage had already been done to the banking system and to confidence in the Federal Reserve System. . . .
>
> One does not have to be a monetarist to agree with the basic thrust of the Friedman-Schwartz analysis of the 1929-1933 period. Many would not agree that the downturn resulted from the slow growth of the money supply in the 1920s and would place less emphasis on the 1929-1933 contraction of the money supply. However, most economists would agree that the Federal Reserve System should have acted more rapidly and more aggressively to stop or shorten the decline.

No series of short readings can fully cover nor satisfactorily explain why the dramatic and complex events of the Great Depression (and its aftermath) took place or why they lasted so long. Just a few of the probable causes not mentioned include (1) the failures of important banks in Europe that led to a whole series of economic difficulties abroad which affected the United States and (2) a severe fall, beginning in 1930, in the prices of raw materials traded on world markets, including wheat, cattle, wool, silk, rubber, sugar, copper, and tin. Countries whose economies depended heavily on the income received from selling such commodities were unable to pay loans they had obtained from abroad when prices were much higher. This helped contribute to the worldwide crisis in banking.

1. Milton Friedman and Anna Jacobson Schwartz, *A Monetary History of the United States, 1867-1960* (Princeton, N.J.: Princeton University Press for the National Bureau of Economic Research, 1963), p. 299.

2. Donald T. Savage, *Money and Banking* (New York: Wiley/Hamilton, 1977), p. 264.

Handout 12-2 (concluded)

It is perhaps even more difficult to say why the depression lasted so long. John Kenneth Galbraith offers the explanation—with reasons—that the economy was "fundamentally unsound." He would undoubtedly agree with those who hold that another reason was the timid way in which the Roosevelt administration carried out its policy of deficit spending.

Another school of thought believes that the Roosevelt's administration's policies and attitudes toward business prevented and discouraged businessmen from investing enough in new factories and machinery to significantly help pull the American economy out of the depths. They believe that the taxes imposed on business were too high; consequently the after-tax profits business was allowed to keep were too low. They also blame the increased taxes imposed on higher personal incomes as well as tough "antibusiness" attitudes of the President and members of his administration. They believe that such policies and attitudes had an adverse effect on the morale of entrepreneurs and corporate officials.

Handout 12-3

IMPORTANT ECONOMIC DATA FOR 1929-33

Year	Total Population	No. of Persons Employed	No. of Persons Unemployed	Personal Consumption Expenditures	Business Fixed Investment [a]
	(numbers in millions; dollars in billions)				
1929	121.8	46.2	1.6	$77.3	$14.5
1930	123.1	44.2	4.3	69.9	10.6
1931	124.0	41.3	8.0	60.5	6.8
1932	124.8	38.0	12.1	48.6	3.4
1933	125.6	38.1	12.8	45.8	3.0

Year	Gross National Product [b]	National Income [c]	National Debt [d]	Federal Government Receipts	Federal Government Expenditures	Surplus (+) or Deficit (−)
	(billions of dollars)					
1929	$103.4	$84.8	$16.9	$3.8	$2.9	$0.9
1930	90.7	73.8	16.2	4.0	3.1	0.9
1931	76.1	56.6	16.8	3.2	4.1	−1.0
1932	58.3	42.4	19,5	2.0	4.8	−2.7
1933	55.8	39.9	22.5	2.1	4.7	−2.6

SOURCE: Various publications of the U.S. government.
[a] Funds used by business owners to replace old machines and buildings or to buy additional ones.
[b] Market value of all goods and services produced by the U.S. economy.
[c] Income received by those producing the goods and services included in GNP.
[d] Outstanding debt of federal government.

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Handout 12-4

THE NEW DEAL: RELIEF, RECOVERY, REFORM

. . . At the middle of the year 1932—more than two and a half years after the crash of 1929—American industry as a whole was operating at *less than half* its maximum 1929 volume. During this year 1932, the total amount of money paid out in wages was *60 per cent less* than in 1929 [,not only because employment had declined, but because wages and prices had fallen severely]. . . .

In [1932] over 12 million Americans were unemployed. In the industrial towns the proportion of jobless people was staggering. In Buffalo, for instance, a house-to-house canvass of nearly fifteen thousand people who were ready and able to work showed that 31 per cent of them could not find jobs, and less than half of them were working full time. And meanwhile the farmers were in desperate straits, with cotton bringing less than 5 cents, wheat less than 50 cents, and corn only 31 cents.

- The Great Depression was part of a world/wide collapse. . . . the collapse of [a] market economy . . . established during the nineteenth century.
- It marked millions of people—inwardly—for the rest of their lives. Not only because they or their friends lost jobs, saw their careers broken, had to change their whole way of living, were gnawed at by a constant lurking fear of worse things yet, and in all too many cases actually went hungry; but because what was happening to them seemed without rhyme or reason.

There is no need to rehearse here in detail the familiar story of the New Deal: how the country was cheered and galvanized by [Franklin] Roosevelt's convincing and contagious confidence in the spring of 1933, how in his very first "fireside chat" over the radio, when the banks were still closed, he conveyed a serene assurance that they could be successfully opened—as they shortly were; how during the wild first hundred days he jammed through Congress, at record-breaking speed, a jumble of hastily improvised legislation; how the conservatives, and well-to-do people generally, began before long to foam with rage at him as he continued to push his reform program, and tinkered with the price of gold, and ran up big federal deficits as Harry Hopkins furnished relief through the WPA to millions of families. . . .

In many ways the New Deal permanently altered the nature of the American economy, and we may well pause for a moment to look at some of the changes it brought about and the new forces it unleashed.

In the first place it rewrote a good many of the rules of the economic game as played in America. For instance, in order to prevent any recurrence of the financial follies of the nineteen-twenties, it divorced commercial banks from the securities business, forbade the issue of securities without exhaustive disclosure of pertinent facts . . . and set up a federal agency [the Securities Exchange Commission] to police these exchanges, and dismantled the more illogical holding-company structures in the utilities business.

In the second place, it intervened extensively in the economic game as protector of the underdog. For instance, because the operations of one of the old-time rules of the game, the law of supply and demand, appeared to be doing damage to the American farmer, it stepped in to jack up and then to guarantee the prices he got. (The [strange] result was that the farmers of the United States, as conservative a group temperamentally as were to be found in the land, became dependent for their very economic lives upon government decisions in their behalf!) Similarly, the New Deal continued to prop up ailing corporations . . . made arrangements to prevent near-bankrupt firms from going broke; aided farmowners and homeowners in meeting their mortgage payments; underwrote the financing of new housing enterprises; insured bank deposits; gave a measure of aid to unemployed people and old people through Social Security; and wrote a minimum wage and hours law for labor.

All this was as if Washington were saying, "Do a lot of people seem likely to get [clobbered] through the unhindered workings of economic law? All right, we'll make it up to them through subsidies, guarantees, or insurance." In short, while the New Deal did not abolish the market place as the determiner of values and rewards, it [offset some of the market's unpalatable effects].

In the third place, it went into the active business of stimulating employment, by building dams,

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Handout 12-4 (concluded)

bridges, parkways, and playgrounds on [a] grand scale, and by putting even the recipients of relief to work at all manner of enterprises carefully concocted so as not to interfere with private business; and it set up the Tennessee Valley Authority to do a combined job of competing with the private electric utilities, preventing floods, and teaching farmers some of the principles of conservation.

In the fourth place, the New Deal gave a go-ahead signal to organized labor. Up to this time such laws as seemed to authorize collective bargaining, like the Clayton Act, had frequently been nullified by the courts. But now the Norris-LaGuardia Anti-injunction Act of 1932 was followed by . . . the Wagner Act. The authorization to organize being clear and specific, there was a rush to join unions.

By the end of the decade the number of union members in the United States had climbed from the 1933 figure of less than three millions to nearly nine millions; office workers who had never in their earlier years dreamed of joining a union found themselves organizing and threatening to strike; executives and their employees found themselves separated from one another by a wall of mutual distrust; and, partly because of union pressures, the average work week in business and industry was about five hours shorter than it had been at the beginning of the decade (one estimate gave a decline from 49.3 hours to 44 hours), and the two-day week end was becoming standard.

Through its general sympathy with labor, the New Deal had unleashed what J. Kenneth Galbraith has . . . called a "countervailing force" in the American economy—a force which, acting in opposition to business managements, and generating . . . friction, served to bring about a redistribution of the national income downward to those in the lower income brackets.

Finally, the New Deal tried to do a job of managing the national economy as a whole. It abandoned the automatically operating gold standard and introduced something approaching a managed currency. It abandoned the idea that the first duty of a government was to balance its budget, and embraced the Keynesian idea of deficit spending, with the highly optimistic notion that deficits in bad years would be counterbalanced by surpluses in good years. Whatever the dangers inherent in such a dream, at least the idea became pretty solidly established that it was the job of the authorities at Washington so to manipulate their spending and their fiscal controls that the economy would run on a reasonably even keel.

The result of all these interventions—the reform measures, the subsidies and guarantees, the public works, the encouragement of labor, and the attempt to steer the economy as a whole—was certainly not a socialist order, at least in the old sense of the government's taking over the management of business and industry. For the management of the vast variety of concerns remained in private hands (though it was so often hedged in by regulations, bedeviled by taxes, and opposed by unions that many an executive felt himself a prisoner of government and labor). Nor was it a free economic order, at least in the old sense of an order in which everybody's economic fortunes were determined by the action of buyers and sellers in the open market, with the government standing aside as Herbert Hoover had tried to stand aside in 1930-1931. It was something between the two: one might call it a repaired and modified form of capitalism. . .

Two more legacies of the nineteen-thirties were based upon the first one and supplemented it. One was the idea that if individual Americans are in deep trouble, it is the job of the rest of the people, through [the] government, to come to their aid. The other was that it is . . . [the job of the] government to . . . [prevent] depressions.

Questions

1. Are your recommendations the same or different from the legislative and executive actions taken under the Roosevelt administration?
2. How do your proposals compare with the New Deal's policies in restructuring or fundamentally altering the operations of the American economic system as it existed in 1933?
3. To what extent do your opinions about the policies of the Hoover administration differ from those you had at the end of the previous lesson?
4. To what extent do you think the New Deal's approach to stimulating the economy and lessening burdens on the poor or unemployed or bankrupt businesses would be in order in a present-day recession or depression?

Lesson 13: United States and International Trade: Government Regulation of Foreign Trade

TIME REQUIRED: Approximately two class periods

RECOMMENDED GRADE LEVEL: 11–12

CONCEPTS: Tariffs
Quotas
Subsidies
Embargoes

Instructional Objectives: Students will

- Name and explain different methods used by the U.S. government to restrict or encourage foreign trade;
- State arguments for and against government restrictions on foreign trade, i.e., the cases for and against "protectionism";
- After participating in a classroom simulation that requires the determination of national policy concerning specific imports—
  a. Name the policy alternatives preferred by the various economic interests involved;
  b. State the effects of such policies on foreign producers and on producers and consumers in the United States;
- Give at least two examples of current U.S. government restrictions on international trade and the costs and/or benefits to the various economic interests affected.

Rationale: The free functioning of market forces in the international trade of many manufactured goods and raw materials is modified by government intervention. The volume of international trade has been growing and has become increasingly important to an increasing number of nations. Decisions about international trade are, therefore, of major interests to U.S. citizens as business managers, employers, and consumers, and students should be given a framework for thinking about the issues involved.

Materials: One copy each of handouts 13-1 through 13-6 for every student; one copy each of handouts 13-7 through 13-10 for every group member (see Procedure 3).

Procedure:

1. Start the lesson by asking:
   a. Can you think of any reasons why the United States might want to restrict imports of any foreign goods or promote exports of domestic goods? (List responses on the chalkboard.)
   b. What are some of the methods of interfering with international free trade? (Tariffs, quotas, embargoes, subsidies, dumping, nontariff barriers.) Most students are acquainted with tariffs. If they fail to suggest other methods of limiting trade, do not press for additional responses at this time.
2. Distribute handouts 13-1 through 13-6. After the students have read the material, have them discuss the articles and re-examine the list on the board (step 1a, above) to determine if other reasons and methods for restricting trade should be added. (NOTE: Definitions and descriptions of measures affecting foreign trade may be found in almost all general texts on economics or international trade. Handout 13-6 illustrates how complex and how wide the effects of protectionism can become.)
3. Divide the class into four groups. Designate the groups as follows, distributing handouts (one for each group member) as indicated:
   I. U.S. Steel Manufacturers (Handout 13-7)
   II. U.S. Automobile Manufacturers (Handout 13-8)
   III. U.S. Rice Producers (Handout 13-9)
   IV. U.S. Consumer Group (Handout 13-10)

   Instruct the groups to discuss each of the questions listed on their respective handouts. When agreement is reached, each member of the group should write the group decision in the appropriate space. (NOTE: You may wish to place a limit on the amount of time groups will be allowed.)
4. After group discussions are completed reorganize students into groups of four, each group consisting of two steel manufacturers and two automobile manufacturers *or* two rice producers and two consumers. The opposing interests should:
   a. Present their positions as to what the U.S. trade policy should be, and
   b. Attempt to formulate a trade policy to which both parties agree.
5. Have each group present its compromises on policy. Conduct a class discussion in which students examine the suggested trade policies in terms of their potential benefits or costs to each of the following: business, workers, consumers, and U.S. trade relations with foreign countries.

Evaluation: Have students locate at least two news articles describing a current incident of government restriction (or a request for restriction) on trade. They should then write a short essay summarizing the articles and describing the probable effects of the restriction on the various economic interests involved. (Students should attach the news articles to their report.)

NOTE: The strategies in this lesson are based upon classroom activities prepared by Elayne Feldman, Fridley Senior High School, Fridley, Minnesota. In their original form the materials earned a first-place award in the 1976-77 International Paper Company Foundation Awards Program for Teaching Economics.

Handout 13-1

STEEL INDUSTRY'S NEW PLEA FOR GOVERNMENT HELP

By AGIS SALPUKAS

In the fall of 1977, when the steel industry was in a severe recession, top steel executives and the industry's trade association made a big push in Washington for Government aid. At that time, they had behind them a powerful coalition of Congressmen, the United Steelworkers of America, workers who had lost their jobs and a substantial segment of public opinion....

Knocking on the Door Again

Now the steel people are back again. With demand for their product dropping after a strong performance in last year's first half, such leading steel executives as David M. Roderick, chairman of the mighty United States Steel Corporation (which this week reported the largest quarterly loss in American business history), and Lewis W. Foy, chairman of the Bethlehem Steel Corporation, the nation's second-largest producer, are again knocking on Washington's door.

They are contending that the industry needs still more help, in the form of protection from imports, tax relief and price increases to generate the money to expand and to meet steel needs of the future. And they are threatening that, if the industry does not get what it wants, they will file antidumping suits. If they do, that step could upset the informal network of controls and quotas that the governments of the major steel-producing nations have worked out to give their troubled steel industries a chance to recover....

Yet, in the last three years, . . . the steel industry itself... [may have] contributed to its present state.

Many major companies, for instance, miscalculated in the early 1970's and embarked on a major expansion and upgrading of plants. Thus they were spending heavily when demand fell severely and stayed depressed for years. Some prominent steel companies, slow to react, continued to spend and thus put a severe squeeze on their own balance sheets.

With most of the new facilities now in place, most of the major steel companies were able to wind down their capital spending and earn high profits for a time.

In contrast to 1977, most of the major companies—including National, Inland, Republic, and Armco—are now in a much stronger position to weather a downturn. Even Bethlehem Steel, which went through severe cutbacks and losses in 1977, earned $275.7 million in 1979, the second best year in its history.

Although top executives still complain about the trigger price mechanism introduced by the Treasury Department in the spring of 1978, that system cut imports 17 percent last year from the 1978 level. In addition, the percentage of total shipments that imports took dropped to 15.2 percent last year from 18.7 percent in 1978 and 17.3 percent in 1977.

Protection on Pricing Found

In so many words, the trigger price system, which provides that steel cannot be imported below certain prices without risking a Treasury Department investigation to determine whether it is being dumped (sold below cost), has protected the domestic industry from price competition. It has also helped the steel companies to raise steel prices even when demand was falling, as it did in the last quarter....

And this time around, U.S. Steel's plant closings, which eliminated the jobs of about 12,500 workers, is not generating the support from the steelworkers' union and local communities that comparable closings did in the fall of 1977. Instead, the anger of the workers has been directed at the company. Rather than marching on Washington several union locals have held protest rallies at U.S. Steel's corporate offices in Pittsburgh and Youngstown, Ohio.

In this round, the steel industry finds itself much more isolated....

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Handout 13-2

U.S. IS PUTTING MORE PRESSURE ON JAPAN TO LOCATE CAR-MAKING PLANTS IN AMERICA

By EDUARDO LACHICA

TOKYO—U.S. officials are stepping up their efforts to persuade Japanese car makers to establish manufacturing plants in America.

The goad that they are applying is the strong probability of legislative moves to restrict the imports of Japanese-made cars.

"If something isn't done—and I don't utter these words lightly—you will find during this election year a great swell of protectionist legislation which will be directed at those who import too much too quickly," Mike Mansfield, U.S. ambassador to Japan, warned in a speech at the Japan Press Club Monday.

Strain in Relations Possible

Mr. Mansfield specifically directed his remarks at Toyota Motor Co. and Nissan Motor Co., the two leading Japanese manufacturers. Toyota and Nissan are still undecided whether to follow the example of a smaller maker, Honda Motor Co., which recently announced a plan to set up a passenger-car assembly line in Marysville, Ohio.

"All the ingredients of an explosion are there," the U.S. envoy said about the prospects of massive layoffs in the U.S. auto industry and recent statements by union leaders blaming Japanese imports for many of the lost jobs.

Mr. Mansfield's remarks indicate some concern by the Carter administration that domestic protectionist sentiments could strain U.S.-Japanese relations at a time when both countries have to work closely together on international security problems.

"Unless it's settled in a statesmanlike manner, the trade questions could turn into a political issue that will do neither country any good," the ambassador warned.

The Japanese government was recently approached on possible remedies by Robert Hormats, President Carter's deputy trade representative. During what a U.S. spokesman called low-key consultations last December, Mr. Hormats proposed either the transfer of some Japanese manufacturing capacity to the U.S. or increasing purchases of American-built parts for motor vehicles destined for the U.S.

Important Gestures

Pressing this argument further, Mr. Mansfield insisted that there is plenty of room for Toyota and Nissan to invest in plants that can turn out 200,000 to 250,000 units a year. These figures represent about a quarter of what the two Japanese makers export to the U.S. yearly.

Such steps wouldn't cause a turnaround in the U.S. trade deficit nor even significantly alleviate unemployment in the U.S. auto industry. But they are gestures that could convince American union leaders of Japan's willingness to help the industry out of its current troubles.

Douglas Fraser, president of the United Auto Workers, is visiting Japan next month to speak to Japanese managements and union officials about the car-import problem. He has voiced impatience with unfulfilled Japanese promises to act on the question and has threatened a boycott of Japanese-made cars unless the unions get some satisfaction.

However, neither Toyota nor Nissan is prepared to clearly state its intentions. Toyota, for one, is still studying the feasibility of manufacturing in the U.S. and won't have any answers until its investigation is completed.

Asked about their attitudes to the U.S. proposals, Toyota and Nissan representatives refer to a number of technical concerns, including quality control, production costs and management-labor relations. Analysts say these misgivings are valid to some extent, but note that Volkswagenwerk AG, a West German manufacturer, appears to have surmounted many of these problems and is running a successful U.S. operation.

Involves Huge Investment

Observers familiar with the Japanese auto makers' attitudes suggest that they are simply reluctant to abandon a so-far successful strategy of exporting built-up cars for the uncertainties of being part of the U.S. industrial scene. For one thing, a move to America will involve a huge investment of hundreds of million dollars. If these turn sour, it would severely affect the two concerns' profitability.

Some Japanese officials argue that as car-manufacturing is one of Japan's strategic industries affecting hundreds of thousands of jobs and earning more than $15 billion in exports every year, it should continue to be based in Japan.

Ichiro Shoji, secretary of the National Center of Automobile Unions, has stated that he favors some capacity transfer for the sake of harmonious U.S.-Japan relations. But Mr. Shoji doesn't necessarily speak for many rank-and-file unionists who fear adverse economic effects in some sectors of the industry.

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Handout 13-3

IMPORT AID FOR SHOE INDUSTRY WEIGHED

By CLYDE H. FARNSWORTH

WASHINGTON, Jan. 25—The Carter Administration is preparing fresh measures to protect the domestic shoe industry, and an interagency review of options to put before the President has been described by a high official as being "in an advanced stage."

The industry is the biggest manufacturing employer in New Hampshire, where Presidential primary elections will be held Feb. 26. Promised aid to the shoe industry was a factor in the victory of John F. Kennedy in the primary there in 1960, a point that, conversations with several officials indicated, is not lost on the Carter Administration in the current deliberations.

Another factor in the deliberations is the current military buildup, which raises the question of dependence on foreign supplies for a product that advocates of relief hold is vital to national defense.

The Commerce Department has quietly intensified the monitoring of shoe shipments from the Philippines, Italy and Hong Kong, which could become the targets of new action. The department now records shipments destined for the United States as soon as they leave these countries rather than waiting for arrival.

President Carter's first significant trade action, in April 1977, was to negotiate quota restraints on shoe imports from Taiwan and South Korea, the two biggest shippers at that time.

Other countries took advantage of the situation to widen their market shares here, with the effect that overall imports are up substantially—from 370 million pairs in 1977 to an estimated 407 million for 1979.

In 1979, for the first time, more shoes were imported into this country than were produced here, a situation deplored by a powerful industry and labor coalition that is pressing the Administration to act more forcibly.

The politics of shoes is underscored by the numbers. Some 146,000 shoe workers are now employed in 41 states by 350 companies, down from 160,000 workers and 360 companies in April 1977 and from 230,000 workers in 1970.

The figures were supplied by the American Footwear Industries Association and the two labor unions that have joined it in the import battle, the United Food and Commercial Workers and the Amalgamated Clothing and Textile Workers.

Reubin O. Askew, President Carter's chief trade representative, who is chairman of the interagency review committee, declined to comment on the internal deliberations, but in the frequent meetings he has had with industry and union representatives, he has been described as sympathetic to the case for relief.

It is understood that he favors a middle course between full-scale global quotas, urged by the industry-union coalition with support of the Labor Department, and continuation of present policies of discussions with individual exporting countries, which the State Department prefers.

These discussions have already taken place with the Philippines, Singapore, Italy, Taiwan and South Korea. The talks have been cautionary, showing a level of concern without making specific demands, according to American officials.

Possibility of Trigger Quotas

Officials said that a middle course could involve a series of trigger quotas; major exporters would be told that only if shipments exceeded certain levels would quotas be applied.

Italy is the biggest shipper to the United States in dollar value of imports, and Italian imports have doubled from 47 million pairs in 1976 to an estimate of more than 100 million in 1979.

Firing Italy's growth has been the popularity of a brand of women's shoes called Candies that have thick simulated-wood soles with uppers stapled on. American women now own 30 million pairs of Candies.

Follow-up

In March, President Carter rejected all proposals to place further restrictions on imports of footwear. His reasons were: expectations that weakening consumer demand would cause imports of shoes to fall significantly in 1980; the overriding importance of avoiding any actions which increase inflation; and a desire not to introduce potential frictions in trade relations with other countries—i.e., not add to the general protectionist atmosphere developing among major trading nations.

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Handout 13-4

TRADE PANEL ASKS FOR SUGAR, TV IMPORT LIMITATIONS

Associated Press
Washington, D.C.

The U.S. International Trade Commission recommended Monday that President Carter impose tariffs on imported television sets and limit sugar imports. The actions could raise prices.

The commission recommendation for a tariff on foreign-made color and black-and-white television sets would increase the average price of imported color sets by $56.

The sugar quotas would limit imports to 4.275 million tons annually for a five-year period. Sugar imports in 1976 totaled about 4.7 million tons.

A group of sugar refiners opposed to the quotas contend that an annual quota of 4.2 million tons would have the potential to increase the retail price of refined sugar at least $16 per family per year, with a total impact on the economy of more than $1 billion.

The effort to restrict imports of sugar and television sets are the latest developments in a growing effort by U.S. industry and labor unions to protect their markets and jobs from imports.

The commission recommended several weeks ago that a tariff and a quota be placed on imported shoes. That move could cost consumers an estimated $200 million a year.

Carter has 60 days to decide whether to accept, reject or modify the commission's decision on television sets. If he doesn't act, the ruling goes into effect automatically. If he refects the decision, Congress can overturn his act by a majority vote.

Carter has not indicated how he feels about import quotas and tariffs, but his top economic adviser, Treasury Secretary Michael Blumenthal, has said that such protectionist measures should be used only as a last resort.

In addition, the Council on Wage and Price Stability, the government's inflation-monitoring agency, opposed the attempt by industry to get the tariff on imported television sets increased. The council estimated that each 10-percent increase in the tariff adds $221 million to consumer prices and pushes up by $28 the price of the average $308 color television set. The agency did no estimate on black-and-white sets.

The commission recommended that the 5-percent duty on imported television sets be increased for the next two years to a total of 25 percent. The tariff would drop to 20 percent in the next two years and to 15 percent five years from now.

The foreign share of the color television market in the United States was 22 percent in 1971 and is about 40 percent now. Foreign manufacturers also account for about 75 percent of black-and-white sets sold in this country.

Associated Press report, April 1977. Used by permission.

Handout 13-5

EFFECT OF TRADE ON THE TEXTILE AND GARMENT INDUSTRIES

Garment Workers from 40 States Call Cheap Imports 'Sew-and-Sews'

Garment workers by the thousands poured out of New England textile mills, New York City's garment-district factories, and midwest and west coast plants yesterday in a 40-state protest against clothing imports.

"America has become a dumping ground for all foreign countries," charged Jack DiBlasi of the Amalgamated Clothing and Textile Workers, in a rally at New York City's Herald Square.

"We cannot compete with Taiwan and Japan," DiBlasi shouted. "It's got to stop or we'll all be on welfare."

The textile workers union and [the] International Ladies Garment Workers Union claim that in the past decade, 145,000 jobs have been lost and the potential for 316,000 jobs was never realized because of cheap foreign imports.

President Carter, who met yesterday with AFL-CIO President George Meany and [other] union leaders to discuss import lids, was a prime target of the placard-bearing marchers, many of them women.

An estimated 2,000 demonstrators paraded with a police escort through Chicago, waving signs urging "Don't buy foreign apparel" and "President Carter SOS—save our shops and curb imports."

Associated Press report, April 1977. Used by permission.

Handout 13-6

E.E.C. LETS BRITISH CURB U.S. FIBERS

London to Make Decision Friday

BRUSSELS, Feb. 5—Western European governments agreed today to allow Britain to restrict its soaring imports of American synthetic fibers, but decided not to allow other countries to do so, to lessen the danger of a damaging trans-Atlantic trade war.

Foreign ministers of the nine member countries of the European Economic Community accepted a report by their Executive Commission. It said the damage that imports of cheap American fibers were doing to Europe's textile industry did not yet justify general protectionist measures, although Britain's case may be different.

Tonight Britain's Conservative Government was reported moving toward a decision to put new restrictions on imports of American polyester filament yarn, which now accounts for 26 percent of total national consumption compared with less than 4 percent in 1977.

Britain's Trade Minister, John Nott, said he was "grateful" for the understanding shown his country's problems, adding that the Government would announce next Friday whether it planned restrictions.

Retaliation Feared

Some officials here expressed concern that even unilateral action by Britain would strengthen the hand of protectionist forces in the United States, increasing the risk of retaliatory action there. But others hope that Britain's strong support for President Carter on the Afghanistan crisis will dissuade him from such retaliation.

By deciding against Europe-wide restrictions on United States fiber imports, the nine Common Market governments and the commission hope to strengthen President Carter's resolve to resist growing pressures by the American steel industry for new restrictions on European steel imports.

They also believe that today's decision means Europe is keeping its end of the private bargain that Roy Jenkins, commission president, made with President Carter in Washington 10 days ago, under which both leaders agreed to fight mounting pressures in Europe and the United States for protectionist action.

During their talks, both President Carter and Mr. Jenkins reportedly agreed that any new trade restrictions carried a high risk of spreading in today's difficult economic climate, undermining Western efforts to preserve free trade despite slowing economic growth and rising unemployment.

U.S. Price Controls Cited

Western European governments believe that America's oil and natural gas price controls now give its synthetic fiber and other plastics manufacturers an increasingly unfair price advantage in overseas markets. But in the United States, steelmakers complain that European steelmakers are being unfairly subsidized by their governments.

On Feb. 18, President Carter will send his chief trade negotiator, Reubin Askew, to Brussels to try to resolve these and other trade disputes smoldering between Europe and the United States. Officials here, however, seem doubtful of substantial progress.

Meanwhile, Europe has opened discussions with the United States in Geneva on the broader trade implications of energy price controls, arguing that the Western industrialized world should accept a common position, in case th oil-exporting countries of the Middle East start providing cheap oil feed stock to the plastics and fertilizer industries they are now building.

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Handout 13-7

STEEL MANUFACTURERS (GROUP I)

Name _____ Class _____

Directions: Your group represents U.S. steel manufacturers. Read the following paragraph and decide whether the industry would be in favor of free trade, protective tariffs, quotas or subsidies under the given circumstances. State your reasons. Answer the questions following the reading.

The emergence of an efficient steel industry in Japan and elsewhere has cut into American steel production. U.S. steel firms have been priced out of many foreign markets. They are now even struggling with foreign competitors for markets in North America. Environmental protection regulations and lower productivity have driven the price of U.S.-made steel so high that many U.S. steel users are obtaining larger and larger quantities from abroad. Your group, the steel manufacturers, is going to lobby in Congress to make your opinions known. To do so, you will need to take a position on the following questions:

1. What policy does your industry or group want the U.S. government to follow and why?

2. How would your recommended policy affect U.S. steel producers? Why?

3. How would your policy affect U.S. consumers? Why?

4. How would your policy affect foreign steel producers? Why?

5. If Congress and the President fail to adopt your stated policy, what compromises would you accept?

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Handout 13-8

STEEL USERS (GROUP II)

Name _____ Class _____

Directions: Your group represents U.S. automobile manufacturers, an industry that consumes much steel. Read the following paragraph and decide whether the industry would be in favor of free trade, protective tariffs, quotas, or subsidies under the given circumstances. State your reasons for your decision. Answer the questions following the reading.

The emergence of an efficient steel industry in Japan and elsewhere has lowered the world price of steel. U.S. auto manufacturers, besides buying a great deal of steel from U.S. producers, have in recent years also imported many tons of foreign steel, because it is less expensive than American steel. U.S. steel manufacturers are losing many sales and want the American government to protect them. Your group, the auto manufacturers, is going to lobby in Congress to make your opinions known. To do so, you will need to take a position on the following questions:

1. What policy or policies does your industry want the U.S. government to follow and why?

2. How would your recommendations in relation to question 1 affect the U.S. steel producers?

3. How would your policies affect U.S. steel-using industries and U.S. consumers and why?

4. How would your policies affect foreign steel producers?

5. If Congress and the President fail to adopt your policies, what compromises would you accept?

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Handout 13-9

RICE GROWERS (GROUP III)

Name _____ Class _____

Directions: Your group represents the rice producers of the United States. Read the following paragraph and decide whether the industry would be in favor of production controls. State your reasons. Answer the questions following the reading.

From 1954 to 1974 the U.S. Agriculture Department controlled the production of rice. They did so by setting annual acreage restrictions. In 1974 the department removed them. In 1975-76 U.S. rice growers had bumper crops. And Pakistan and Thailand have been especially successful in increasing rice exports in recent years. Since the United States is a rice exporter, and the world price of rice dropped from $17.50 per hundredweight in June 1974 to $6.75 in 1977, partly because of the added large supplies from Pakistan and Thailand, the U.S. government is considering whether to reinstate production controls. As U.S. rice producers, you are very concerned about falling world prices for rice.

1. What policy do you want the U.S. government to adopt and why?

2. How would your recommendations in respect to question 1 affect U.S. rice producers? Why?

3. How would your policies affect U.S. consumers? Why?

4. How would your policies affect foreign rice producers? Why?

5. If Congress and the President fail to adopt your policies, what compromises would you accept?

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Handout 13-10

RICE CONSUMERS (GROUP IV)

Name_____ Class_____

Directions: Your group is an organization of U.S. consumers. Read the following paragraph and decide whether the industry or group would be in favor of production controls. State your reasons. Answer the questions following the reading.

From 1954 to 1974 the U.S. Agriculture Department controlled the production of rice. They did so by setting annual acreage restrictions. In 1974 the Agriculture Department removed them. In 1975-76 U.S. rice growers had bumper crops. And Pakistan and Thailand have been especially successful in increasing rice exports in recent years. Since the United States is a rice exporter, and the world price of rice has dropped from $17.50 per hundredweight in June 1974 to $6.75 in 1977, partly because of the added large supplies from Pakistan and Thailand, the U.S. government is considering whether to reinstate production controls. As a consumer organization, you are very concerned about the increasing cost of food.

1. What policy do you want the U.S. government to adopt and why?

2. How would your recommendations in respect to question 1 affect U.S. rice producers? Why?

3. How would your policy affect U.S. consumers? Why?

4. How would your policy affect world rice producers? Why?

5. If Congress and the President fail to adopt your stated policies, what compromises would you accept?

From *Master Curriculum Guide for the Nation's Schools*, Part II, *Strategies for Teaching Economics: United States History (Secondary)*, 1980. Joint Council on Economic Education, 1212 Avenue of the Americas, New York, NY 10036.

Supplementary Materials

This list has purposely been kept short—six entries. Each deals with economic materials that can be used to supplement an American history course. Other excellent materials are on the market, but these six both complement the Master Curriculum Guide and deal strictly with the issue at hand: economics in American history.

Teaching Economics in American History: A Teacher's Manual for Secondary Schools, by George G. Dawson and Edward C. Prehn. New York: Joint Council on Economic Education, 1973.

A chronological approach that divides American history into twenty-one topics. This organization complements that of typical American history textbooks and works equally as well with those that are organized by topic. Each of the twenty-one sections summarizes events that had important economic consequences during a particular period. Discussion questions and a long and varied list of suggested learning activities are included.

The manual is not an economics textbook. Rather, it focuses on basic economic concepts. It should be used with a good American economic history textbook and/or an economics textbook, particularly if the teacher has only a limited background in economics.

While many economic concepts could be illustrated in every topic, the authors chose only those essential for developing an economic understanding of a given period. Some concepts, of course, appear in several topics in order to provide opportunities to reinforce earlier lessons and increase the depth of student understanding.

Teaching Economic Concepts in American History. Color slides. New York: Jount Council on Economic Education, 1973. Produced by Educational Enrichment Materials.

The 120 slides in this set are specifically keyed to the text, discussion questions, and activities of *Teaching Economics in American History*. Each slide is devoted to a major economic idea or concept highlighted in the twenty topics. (Topic 21, which deals with current events, is not included because the slides would rapidly become dated, and vivid contemporary illustrations are readily available in newspapers and news magazines.) Selected individual slides in this set are also admirably suited to presenting the one-semester course in economics and to teaching the economic topics that are usually part of the course in problems of American democracy.

Teaching Economics in American History. Wall Chart and Activity Masters Kit. New York: Joint Council on Economic Education, 1976.

Organized into twenty American history topics chronologically arranged in identical fashion to those of the Dawson/Prehn Teacher's Manual, a copy of which is included in the kit. Also contains twenty bulletin-board-size illustrated wall charts (one for each of the twenty topics) and sixty student activity masters (three for each topic) and a teacher's guide for all the wall charts and activity masters.

The wall charts are colorful and act as springboards for discussions. Ideas for their use are offered in the manual. The activity masters often relate historical events to contemporary issues. All masters have the answers preprinted. Many possible answers are suggested. Students probably will—and should—offer alternative answers.

Economics and the American Dream. Current Affairs Case Study, Newsweek Educational Program. New York, 1975. Now distributed by Educational Audio Visual Inc., Pleasantville, NY 10570.

A multimedia package dealing with basic economic concepts and the development of the American market system. The kit includes three filmstrips with tapes, fourteen narrative readings on spirit masters, and six visuals. It also contains a case study: "Controlling the Business Cycle: The Government's Role," which consists of an additional thirteen narrative readings and six visuals plus a simulation. The package includes teacher's guides, a glossary of economic terms, and bibliography.

The filmstrips, which are designed to arouse interest and provide motivation, deal with:

—*Our Economic Heritage*—economic problems of the mid-1800s to the market crash of 1929.
—*Contemporary Capitalism*—explores causes of Great Depression and continues to the 1960s.
—*The Future of Capitalism*—examines contemporary and future economic problems.

The narrative readings are taken from primary sources and are keyed to activities and research projects suggested in the teacher's guide. The total package is an inquiry-oriented program designed to supplement many social science courses, particularly for American History after the 1850s.

American Enterprise (1976). A series of five films (*Land, Organization, Government, Innovation, and People*) on America's economic history. Produced by Playback Associated for Phillip's Petroleum Company. Distributed by Modern Talking Picture Service, Inc.

Breaking away from the traditional educational documentary style, the American Enterprise series views America's economic history through dramatic reenactments of historical scenes. Each film has a central character who looks at contributions to Ameri-

ca's economic growth from a different viewpoint—land, organization, innovation, government, and people. These characters, played by William Shatner of *Star Trek*, argue passionately for their point of view about what shaped America's destiny. Which view prevails? The viewer must decide.

Numerous economic concepts and principles are covered in each film in an entertaining, engrossing manner. Often these concepts are implied but are not implicit. To assist teachers in elucidating these concepts, a teacher's guide for each film has been prepared by George Fersh.

A teaching kit accompanies the series. It includes a colorful poster for each film designed to generate awareness and stimulate discussion, four spirit master activity sheets, and a sixteen-page film guide. The guide contains a synopsis of the film, background information and facts, economic concepts and how they relate to the film, ways to introduce the film, discussion questions, suggested activities and projects, an economic glossary, and a bibliography.

The U.S. Department of Labor History of the American Worker. Edited by Richard B. Morris. Washington, D.C.: U.S. Government Printing Office, no date.

This illustrated history, compiled by six of our leading labor historians, chronicles the development of working people from the colonial era to the space age through art, literature, poetry, and music. The book is extremely attractive and is inviting to read or to flip through.